

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

AN ANALYSIS OF THE CONDITIONS AND PROCEDURES
LEADING TO THE PROPOSED CLOSURE OF A HIGH SCHOOL
IN THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-778

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IN THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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Auditor General

May 25, 1988

F-778

Honorable Bruce Bronzan, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 448
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the conditions and procedures leading to the proposed closure of a high school in the Palos Verdes Peninsula Unified School District. This report indicates that the expenditures in the Palos Verdes Peninsula Unified School District are comparable to those in other districts. The district has taken steps to increase its revenue and decrease its expenditures to offset the effects of declining enrollment. However, the district has problems with its procedures for collecting developer fees. The district's vote to close a high school has brought about a lawsuit from a group of citizens trying to establish a new district in the east peninsula area. The lawsuit is still pending.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

Because of declining enrollment, the Palos Verdes Peninsula Unified School District (district) has experienced reductions in revenue based on enrollment, causing potential financial difficulties. Although it has closed and consolidated schools to reduce expenditures, the district must continue reducing expenditures, increasing revenue, or both to avoid future financial problems. During our review, we noted the following specific conditions in the district:

- Since 1979, the district has closed five elementary schools and two intermediate schools;
- The district has sold or agreed to sell surplus properties for a total of approximately \$14.2 million since 1976. In addition, the district received approximately \$467,000 in rent and lease revenue in the fiscal year 1986-87. The district also attempted, but failed, to win voter approval for a parcel tax, which would have generated additional revenue for the district through increased property taxes;
- The district's procedures for collecting developer fees are not sufficient to ensure that the district collects all of the fees to which it is entitled or to ensure that the district consistently applies the criteria for collecting these fees;
- We reviewed developer fees of \$297,000 that were collected and \$532,000 that were exempted between June 1987, when the district began collecting these fees, and March 1988. Of the fee exemptions that we reviewed, the district could not demonstrate that 13, totaling almost \$73,000 met all of the necessary criteria for approval. In addition, the district accepted a postdated check from the district superintendent and failed to deposit that check promptly;

- In 1987, to further reduce expenditures, the district developed three primary options for the closing of at least one additional school and voted unanimously to close Miraleste High School at the end of the 1987-88 school year; and
- In December 1987, the East Peninsula Education Council, Inc., filed a lawsuit to prevent the closing of Miraleste High School or to postpone it until the effort to create a separate school district in the east peninsula has been exhausted or successful. According to the district's community relations liaison, as of May 19, 1988, the judge's rulings in this lawsuit had not been filed and were not available in written form. However, based on a summary prepared by the district's attorney for this lawsuit, the district's community relations liaison stated that, in the granting of the writ of mandate, the judge ruled that the district could not close Miraleste High School until the district complied with the requirements of the California Environmental Quality Act. The same district representative also stated that the district intends to appeal this decision.

BACKGROUND

The district, located 21 miles southwest of Los Angeles, has 13 principal schools, which serve the cities of Palos Verdes Estates, Rolling Hills, Rolling Hills Estates, and Rancho Palos Verdes and unincorporated areas of Los Angeles County. Enrollment in the district has declined from 17,836 students in the 1973-74 school year to 9,883 in the 1987-88 school year, causing a reduction in the district's revenue based on enrollment. To avoid deficits in its main operating fund, the district has had to find alternative sources of revenue, including school closures and property sales. Nevertheless, the district's finance and facilities subcommittee for its most recent five-year plan has indicated that the district could have a fund balance deficit of approximately \$6.1 million by the 1990-91 school year.

PRINCIPAL ISSUES

The Expenditures in the Palos Verdes Peninsula Unified School District Are Comparable to Those in Other Districts

The district's type and distribution of expenditures have been similar to those that we reviewed for other unified school districts in Los Angeles and Orange counties. The district has not deviated significantly from the average for these districts in any of the major categories, including administration.

The Palos Verdes Peninsula Unified School District Has Taken Steps To Increase Revenue

To help overcome reductions in revenue based on enrollment, the district has attempted to raise cash and additional revenue by selling, renting, and leasing surplus property, by trying to win voter approval for a parcel tax, which failed, and by collecting developer fees on new residential and commercial or industrial construction in the district. For the payment forms that we reviewed, the district had collected \$297,000 in developer fees, which can only be used for the construction or reconstruction of school facilities, but the district's procedures for collecting these fees are not sufficient to ensure that the district collects all fees to which it is entitled. For example, the district did not establish written criteria for exemptions from developer fees. It also did not inform the public that exemptions from these fees are available until it issued a press release to certain newspapers on February 11, 1988, nor did it make consistent decisions on exemptions. As a result, in the sample of developer fees that we reviewed, the district awarded at least 13 waivers of fees, totaling almost \$73,000, for which the district could not provide evidence of compliance with its unwritten criteria for exemptions. In addition, the district accepted

a postdated check for developer fees from the district superintendent, and it did not deposit that check promptly.

Despite these sales, rents, leases, and developer fees, the district's revenue, for which the use is restricted and unrestricted, has not increased sufficiently to solve its financial problems.

The Palos Verdes Peninsula
Unified School District Voted
To Close Miraleste High School

Since 1979, the district has closed schools to decrease expenditures, and in 1987, the district's school board examined various options to close and consolidate additional schools. Before making its decision, the school board solicited responses to these options at three public hearings, and the majority of those in attendance who addressed the school board favored two options. One option would close one of the district's three high schools while the other option would close both of the district's intermediate schools. In November 1987, the board unanimously voted to close Miraleste High School. However, the East Peninsula Education Council, Inc., a group of local citizens, favored closing both intermediate schools.

Before making its decision, the school board applied five criteria to each option: the dollar savings, the improvement of programs, the effect of different grade-level groupings, the relocation of students, and the efficient use of facilities. Since the dollar savings and the efficient use of facilities were similar for both options, the school board based its final decision on the improvement in programs, the grade-level groupings at schools, and the relocation of students.

A Group of Citizens Is Trying
To Establish a New District
in the East Peninsula Area

As part of an effort to keep Miraleste High School open, the group of citizens organized as the East Peninsula Education Council, Inc., (EPEC) took steps to establish a new school district. In December 1987, the EPEC filed a lawsuit to prevent the closure of Miraleste High School or to postpone it until the EPEC's efforts to establish a new district are either exhausted or successful. In addition, the EPEC has submitted a petition to Los Angeles County to form a new district. If the proposed new district had been established during 1986-87, we estimate that the current district's revenue would have been reduced by approximately \$5.9 million and its expenditures would have been reduced by approximately \$6.2 million. The EPEC, on the other hand, has proposed a preliminary 1987-88 budget for the new district that anticipates \$6.1 million in revenue and \$5.9 million in expenditures.

The spending priorities of the EPEC's preliminary budget differ from those at the current school district and at other districts in Los Angeles and Orange counties. For example, the EPEC's budget would reduce expenditures for classified employee salaries and for the district office, and it would increase expenditures for books and supplies. The EPEC and the administration of the current district also have different perspectives on issues such as future enrollment trends as they relate to the formation of a new school district.

RECOMMENDATIONS

To ensure that the district collects all fees to which it is entitled and to ensure that the district applies criteria consistently for the collection of those fees, the district should take the following actions:

- Formally adopt written criteria for collecting developer fees;
- Communicate its written exemption policy on developer fees to the public in writing;
- Designate a committee to review, or itself review, all past and future requests for exemptions from developer fees and make consistent decisions on exemptions based on its written criteria; and
- Ensure that it consistently follows its policy of not accepting postdated checks and that it deposits checks promptly.

AGENCY COMMENTS

The district agrees with our report concerning administrative costs, the vote to close the high school, and the formation of the proposed school district. The district will implement our recommendations concerning developer fees and has been able to provide documentation for some exemptions of developer fees where documentation was missing. The district is also obtaining documentation for the remainder.

INTRODUCTION

The Palos Verdes Peninsula Unified School District (district) is located 21 miles southwest of metropolitan Los Angeles and includes the cities of Palos Verdes Estates, Rolling Hills, Rolling Hills Estates, and Rancho Palos Verdes and some unincorporated areas of Los Angeles County. In 1985, more than 72,000 people were living on the peninsula.

Since the 1973-74 school year, enrollment in the district's 13 principal schools has declined from a high of 17,836 students to 9,883 in the 1987-88 school year. Between the 1983-84 and 1987-88 school years, the average daily attendance declined from 11,251 to 9,883, at an average rate of 3.2 percent per year. Average daily attendance (ADA) is calculated by dividing the total student attendance days by the total number of school days taught, and the majority of financial support for public schools in California is based on units of ADA. For the Palos Verdes Peninsula Unified School District, the revenue that is based on ADA constitutes approximately three-fourths of the district's revenue. We estimate that the district lost approximately \$6.9 million in revenue based on ADA that it would have received if enrollment had not declined between 1983-84 and 1987-88.

Although the district's ADA declined during the period, the revenue based on ADA increased at the rate of 1.2 percent per year because of increases in the State's payments for each unit of ADA. However, expenditures also increased during this period, at a rate of 4.9 percent per year. Because revenue based on ADA has increased at a slower rate than expenditures, the district has had to find alternative sources of revenue to avoid deficits in its general fund, the district's main operating fund. Despite these alternative sources of revenue, the district's finance and facilities subcommittee for developing the district's comprehensive plan for 1986 through 1991 indicated that, based on the district's projections for the general fund, the district could have a fund balance deficit of approximately \$6.1 million by the 1990-91 school year.

The district's general fund accounts for approximately 93 percent of the district's revenue and 95 percent of the district's expenditures. For the 1987-88 school year, the district budgeted in its general fund revenue of approximately \$35.4 million and expenditures of approximately \$35.6 million. Table 1 shows the district's revenue and expenditures for its general fund for the five years ended June 30, 1988.

TABLE 1
PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
GENERAL FUND
REVENUE AND EXPENDITURES
FISCAL YEARS 1983-84 THROUGH 1987-88
(IN THOUSANDS)

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Expenditures and Transfers Between Funds</u>
1983-84	\$ 31,280	\$ 32,023
1984-85	32,732	33,972
1985-86	35,198	33,386
1986-87	33,698	34,963
1987-88 (Budget)	<u>35,425</u>	<u>\$ 35,678</u>
Totals	<u>\$168,333</u>	<u>\$170,022</u>

SCOPE AND METHODOLOGY

The purpose of this review was to provide information about the fiscal impact of declining enrollment on the district and about the procedures used to develop and to evaluate the principal alternatives proposed in 1987 for dealing with the decline in enrollment. An additional purpose of the review was to discuss the steps taken to establish a new school district. We compared the district's expenditures to those of other school districts to determine whether the district was incurring expenditures that other districts were not. We also identified and determined the success of the district's attempts to increase revenue and decrease expenditures. In addition, we examined the criteria that the district used to evaluate the options for closing schools and examined the district's application of these

criteria. Finally, to help evaluate the feasibility of establishing the proposed new district in the eastern portion of the peninsula, we determined the procedures necessary to establish a new school district and the status of the attempt to form the new school district. We also analyzed the potential effect on the original district of forming a new district, and we reviewed a proposed budget for the new district.

As part of our review, we interviewed staff at the district, at the Los Angeles County Committee on School District Organization, at the State Department of Education, and at other school districts. In addition, we interviewed representatives for the East Peninsula Education Council, Inc., (EPEC). We also reviewed the minutes of school board meetings, transcripts of the three special meetings held in the fall of 1987 to consider school closure, and transcripts of certain depositions associated with the lawsuit filed by the EPEC to prevent the closure of Miraleste High School or to postpone it until attempts to establish a new district had been exhausted or successful.

Of approximately 160 new construction projects that the district evaluated for collecting developer fees as of March 22, 1988, we reviewed the files for 78. In addition, we reviewed the audited financial statements of the district, certain reports that the district is required to submit to the State Department of Education, and certain contracts, budget documents, and payroll reports. We did not review all of the available accounting records nor all of the supporting

documentation for these records. In addition, we did not audit the financial reports of other school districts used for comparison purposes.

In conducting this review, we relied on financial information provided by the district and its auditors. Because the procedures described above were not sufficient to constitute a separate examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the financial statements referred to or used for this report.

ANALYSIS

I

THE EXPENDITURES IN THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT ARE COMPARABLE TO THOSE IN OTHER DISTRICTS

The distribution of expenditures for the Palos Verdes Peninsula Unified School District for employee compensation and other operating expenses has been similar to the distribution of expenditures that we reviewed at other unified school districts in Los Angeles and Orange counties. The district has not deviated significantly from the average for these districts in any of the major expenditure categories such as teacher salaries, employee benefits, and books and supplies. In addition, expenditures for district office and school site administration have been comparable to those in the other school districts.

Comparison of Expenditures in the General Fund

Our comparison of spending from the general fund at the district and at ten other school districts in Los Angeles and Orange counties shows that the district did not deviate significantly from the average of those ten districts in any of the major spending categories. Between 1983-84 and 1985-86, the average daily attendance (ADA) for the ten districts was 13,633. Appendix A lists the ten

unified school districts. Table 2 presents the comparison between the district's and the ten other school districts' expenditures for the general fund on the basis of dollars spent for each unit of ADA.

TABLE 2
COMPARISON OF GENERAL FUND EXPENDITURES
BY EXPENDITURES PER AVERAGE DAILY ATTENDANCE

<u>Expenditure Category</u>	<u>Average of the Three Fiscal Years; 1983-84 Through 1985-86</u>				<u>Palos Verdes vs. Ten-District Average</u>
	<u>Palos Verdes Unified Average*</u> (In Thousands)	<u>Exp./Avg. ADA</u>	<u>Ten-District Average**</u> (In Thousands)	<u>Exp./Avg. ADA</u>	<u>Dollar Difference</u>
Certificated salaries***	\$17,461	\$1,613.62	\$20,708	\$1,518.96	\$94.66
Classified salaries***	5,141	475.09	6,506	477.22	(2.13)
Employee benefits	4,341	401.16	5,802	425.58	(24.42)
Books and supplies	1,118	103.32	1,676	122.94	(19.62)
Services and other operating expenditures	2,656	245.45	3,146	230.76	14.69
Capital outlay	<u>235</u>	<u>21.72</u>	<u>897</u>	<u>65.80</u>	<u>(44.08)</u>
Total General Fund Expenditures	<u>\$30,952</u>	<u>\$2,860.36</u>	<u>\$38,735</u>	<u>\$2,841.26</u>	<u>\$19.10</u>

* Average daily attendance of 10,821.

** Average daily attendance of 13,633.

*** Certificated salaries consist of salaries for teachers, certain administrators, and other employees with certificates. Classified salaries consist of salaries for certain administrators and support staff.

The table shows that the district spent approximately \$1,614 per ADA on salaries for certificated employees, whereas the ten other districts spent an average of approximately \$1,519. The district spent slightly more on these salaries because more than 80 percent of the teachers in the district received the maximum pay for their

qualifications. However, most of the teachers' pay scales were below the median for all of the unified school districts in Los Angeles County, and the student-teacher ratio in the district was close to the average for the county. Expenditures for employee benefits, on the other hand, were lower in the district, approximately \$401, than in the average for the ten other districts, approximately \$426.

Expenditures for Administration at the District

Expenditures for administration in the district were also comparable to those in other school districts. These administrative costs include salaries for administrators and administrative clerical staff at both the district office and school sites. In addition, they include the administrative share of services and operating and support expenditures at these sites. Table 3 summarizes these data for the district and for ten other unified school districts in Los Angeles and Orange counties. Appendix B describes in detail how we have calculated administrative and other costs.

TABLE 3
PERCENTAGE COMPARISON OF TOTAL
GENERAL FUND EXPENDITURES
FOR ADMINISTRATION, SUPPORT, AND PUPIL SERVICES

<u>Expenditures</u>	<u>Palos Verdes Unified</u>		<u>Ten-District Total</u>
	<u>Fiscal Year</u> <u>1986-87</u>	<u>Fiscal Year</u> <u>1985-86</u>	<u>Fiscal Year</u> <u>1985-86</u>
Administration			
District office	7.9%	7.5%	7.2%
School sites	<u>9.8</u>	<u>9.4</u>	<u>9.3</u>
Total			
Administration	<u>17.7</u>	<u>16.9</u>	<u>16.5</u>
Support			
District office	1.0	1.0	1.0
School sites	<u>15.2</u>	<u>15.1</u>	<u>15.4</u>
Total Support	<u>16.2</u>	<u>16.1</u>	<u>16.4</u>
Pupil Services	<u>6.8</u>	<u>6.5</u>	<u>4.8</u>
Classroom	<u>59.3</u>	<u>60.5</u>	<u>62.3</u>
Total			
Expenditures	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

As Table 3 illustrates, the district's expenditures for administration were 17.7 percent of the total general fund expenditures in 1986-87 and 16.9 percent in 1985-86; the average expenditure for administration for the ten districts in 1985-86 was 16.5 percent.

We also reviewed statistics published by the Los Angeles County Office of Education for all of the unified school districts in Los Angeles County.¹ According to these statistics, the number of administrators that the district employs is also comparable to the number employed in all of the other unified school districts in Los Angeles County. For example, the district has a principal, but no vice-principal, at each of its elementary schools, and approximately 60 percent of the other unified school districts in Los Angeles County do not have vice-principals at elementary schools. The district employs a principal, two vice-principals, a director of student activities, and a dean at each of the three high school sites. This level of staffing is comparable to that at the other school districts in Los Angeles County although the district employs one administrator more at each high school than its budgeting formula provided for. The district also provides separate positions for a superintendent and assistant superintendents of administration, for business services, and for instruction. This level of staffing is also similar to that in the other districts.

The district's salary scales for these administrative positions are comparable to those in the other unified school districts in Los Angeles County. For example, in 1986-87, the superintendent's salary ranked 25th out of 43 such positions at these school districts;

¹Source: 1986-87 District Survey of Salaries & Fringe Benefit Contributions in Los Angeles County.

the salary paid to the assistant superintendent for instruction ranked 8th out of the 39 such positions. Salaries paid to principals in the district ranged in rank from 33rd out of 43 for elementary school principals to 14th out of 43 for high school principals.

Benefits that administrators in the district receive are also similar to those in other unified school districts in Los Angeles County. For instance, the district's superintendent receives as employee benefits the district's contribution to his health, dental, and vision insurance; a life insurance policy with a face value of \$50,000; and a \$500 tax deferred annuity. In 1986-87, these annual employee benefits totaled \$3,368; the average maximum for annual employee benefits for all of the superintendents in Los Angeles County was \$3,633. The district also provides the same tax deferred annuity and life insurance policy benefits and lower monthly mileage stipends to other administrators. In 1986-87, the maximum annual employee benefits for these administrators were within the ranges of these benefits for administrators in comparable positions in Los Angeles County. For example, the district's elementary school principals received maximum annual employee benefits of \$3,368, and the range of these benefits for elementary school principals in Los Angeles County was from \$2,306 to \$5,861.

CONCLUSION

For the major categories of expenditures, including administrative costs, in the general fund of the Palos Verdes Peninsula Unified School District, the district's patterns of spending have been similar to those in other unified school districts in the geographical area.

II

THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT HAS TAKEN STEPS TO INCREASE REVENUE

The Palos Verdes Peninsula Unified School District has attempted to raise cash and additional revenue from different sources to offset revenue lost because of declining enrollment. The district has sold or agreed to sell surplus property for a total revenue of approximately \$14.2 million since 1976. In addition, the district has received other revenue through rents and leases. Further, it has attempted, but failed, to win voter approval for a parcel tax. Finally, the district's board authorized the collection of developer fees on new residential and commercial or industrial construction in the district. However, the district's procedures for collecting developer fees are not sufficient to ensure that the district collects all fees to which it is entitled. For example, the district did not establish written criteria for exemptions from developer fees, did not inform the public that exemptions from these fees are available until it issued a press release to certain newspapers on February 11, 1988, did not make consistent decisions on exemptions, and did not separate duties sufficiently when collecting developer fees. As a result, the district has awarded at least 13 exemptions from developer fees, totaling almost \$73,000, for which the district could not provide evidence of its compliance with its unwritten criteria for exemptions. In addition, the district accepted a postdated check for developer fees

from the district superintendent, and it did not deposit that check promptly. Despite the sales, rents, leases, and developer fees, the district's revenue, for which the use is restricted and unrestricted, has not increased sufficiently to solve its financial problems.

Surplus Property

When its enrollment began to decline, the district owned surplus properties that had been purchased for future school sites. Additional property became surplus as declining enrollment caused the district to close operating school sites. The district has sold some of this surplus property to raise cash and to generate revenue. Lease agreements on other surplus property provide additional revenue. Of the six schools closed and still owned by the district, the district is using one as the site for a continuing education school, has leased three others, is currently trying to sell another, and is using another for the district's administrative offices. Through the sale of surplus property, the district plans to establish a fund of approximately \$23 million from which the district would receive a cash flow of approximately \$1.7 million annually. This annual cash flow of \$1.7 million represents approximately 5 percent of the district's 1986-87 actual revenue.

Sales

The California Education Code establishes procedures that school districts must follow for the sale of property and the use of funds resulting from the sale. For those sections of the California Education Code that we reviewed for district compliance, the district follows appropriate procedures. Specifically, the California Education Code, Sections 39296 to 39298, requires the district to form an advisory committee of from 7 to 11 members (7-11 committee) to provide recommendations to the district's governing board on the sale, lease, or rent of surplus property. For the surplus property that we reviewed, the district complied with these requirements. In addition, the California Education Code, Section 39369, requires the district to advertise board resolutions of intentions to sell or lease property. For the two properties that we examined for evidence of advertising, the district advertised in accordance with Section 39369.

The first district sale of surplus property took place in the 1975-76 school year and involved two surplus properties, which together sold for \$1.9 million. Since then, the district has either sold or agreed to sell five other surplus properties for a total of approximately \$12.3 million. The district most recently entered into a lease-purchase agreement for the sale of the 26-acre Peninsula High School site for \$6.65 million. Table 4 provides detailed information

on properties available for sale by the district. The table shows that, currently, the district has identified five surplus properties that are available for sale.

Table 5 shows that the district has sold seven properties and exchanged one since 1975-76.

TABLE 4
PROPERTY AVAILABLE FOR SALE BY
THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

<u>Surplus Property</u>	<u>Became Available</u>	<u>Date of Appraisal</u>	<u>Highest Appraisal</u>	<u>Date Leases Expire</u>
Loma Del Mar*	11/20/78	08/16/78	\$1,734,000	05/20/88
Pedregal*	02/11/80	08/03/87	\$2,550,000	Various
Dapplegray**	07/06/87	06/21/87	\$5,000,000	
Portuguese Bend*	N/A	06/21/87	\$1,865,000	08/19/88
Miraleste High***	N/A			

* The property is available for sale as leases expire.

** This property was involved in the lawsuit with the East Peninsula Education Council, Inc., so its sale had been postponed by the district.

*** On November 2, 1987, the district's school board voted to close this school, beginning with the 1988-89 school year. Presently, the school is operating for students in 7th through 12th grades. This property was involved in the lawsuit with the East Peninsula Education Council, Inc., so its availability for sale had been postponed by the district.

N/A Information was not available.

TABLE 5
PROPERTY SOLD OR EXCHANGED BY
THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

<u>Surplus Property</u>	<u>Became Available</u>	<u>Sold</u>	<u>Exchanged</u>	<u>Date of Appraisal</u>	<u>Highest Appraisal</u>	<u>Final Appraisal</u>	<u>Sale Price</u>
Crestmont	03/15/76	03/16/76		*			\$ 1,500,000
Highland	03/15/76	03/16/76		*			400,000
Los Cerros	11/20/78	06/15/79		08/16/78	\$1,175,000	\$1,000,000	2,100,000
Tierra Alta	11/20/78	04/26/79		08/16/78	600,000	550,000	985,000
Abalone Cove	11/20/78	10/09/79		08/16/78	1,750,000	1,500,000	1,750,250
Loma Del Mar**	11/20/78	07/18/79	08/31/81	08/16/78	800,000	750,000	800,000
Ladera Linda	02/11/80		08/31/81	*			
Peninsula	04/21/86	01/14/87		07/01/85	5,400,000	***	<u>6,650,000</u>
Total							<u>\$14,185,250</u>

* Information was not available.

** On July 18, 1979, the district sold the Loma Del Mar property to the City of Ranchos Palos Verdes.
On August 31, 1981, the district exchanged the Ladera Linda property for the Loma Del Mar property.

*** The appraisal contained values for different site usage, so a single appraisal value was not given.

The most recent sale of surplus property illustrates the district's procedures for these sales. This sale, which the 7-11 committee recommended, took place in the 1986-87 school year and consisted of a lease-purchase agreement for the Peninsula High School site for \$6.65 million. After a special consultant developed the bid package and evaluated the bids received for this property, the school board awarded the bid to the organization that the consultant recommended. The contract was executed in January 1987, and the successful bidder made the first interest payment in July 1987. The bid package provided for the payment of interest for the first six months 120 days following the award of the bid. In addition, the lease-purchase agreement contained a clause that provided for another two-month extension on the first interest payment if the city in which the property is located required an environmental impact report (EIR). According to the district's assistant superintendent of business, an EIR on this site was requested of the buyer.

Because of deed restrictions, not all of the district's surplus property is available for sale or lease. These deed restrictions prevent the district from using some properties for anything other than educational or recreational purposes.

In addition, a lawsuit had prevented the sale of a specific piece of surplus property. The organization that brought the lawsuit against the sale of this property is attempting to form a new

school district and plans to use this site should the new school district be formed. We discuss this lawsuit in more detail in Chapter IV.

Use of Funds From Sales

The California Education Code, Section 39363, restricts the use of funds collected from property sales for expenditure on purposes identified by this Code. According to the report issued in 1987 by the State Controller's Office, "Review of Proceeds Derived from the Sale of Surplus Properties for the Period July 1, 1980 through June 30, 1987," the district used the principal and interest payments from the sale of the school sites in accordance with the California Education Code, Section 39363. Of the \$9.3 million that the district actually received from the sale of surplus property as of June 30, 1987, the district has spent approximately \$8.0 million. The district spent this revenue for classroom equipment, district equipment, the leasing of portables, the payment for architectural services, appraisal services, legal services, and various capital improvements.

Rents and Leases

To further alleviate the problem of reduced revenue, the district has also leased and rented surplus property that it owns. The district now leases six pieces of property, and other properties are available for limited rental. District data indicate that the rental

and lease revenue from the sites has risen from approximately \$133,000 in 1980-81 to approximately \$467,000 in 1986-87. The district estimates that it will receive rent and lease revenue of approximately \$865,000 for 1987-88. This rent and lease revenue represents approximately 1.39 percent of the district's revenue for 1986-87 and 2.44 percent of the district's budgeted revenue for 1987-88.

The four properties that generated the most revenue from leases during 1986-87 were Pedregal Elementary School, closed in 1980; Miraleste Elementary School, closed in 1982; Margate Intermediate School, closed in 1985; and the Peninsula High School site. Together, they provided approximately \$344,000 in revenue from leases in 1986-87. According to district staff, the district leased the Pedregal, Miraleste, and Margate schools immediately upon their closures.

The district leases two additional pieces of property: the Loma Del Mar and the Portuguese Bend sites. The district has leased the Loma Del Mar site to the Rancho Palos Verdes Redevelopment Agency for two years for \$1. The district has leased the Portuguese Bend site to the City of Rancho Palos Verdes for ten years in return for retention of any improvements that the city makes to that property.

Parcel Tax

The district also attempted to raise revenue through a parcel tax to offset lost revenue caused by declining enrollment. A parcel tax is a tax that is assessed equally on each piece of property within a certain boundary. The district would receive all of the revenue generated by this tax. In December 1985, the school board formed the Citizens' Committee to Study the Feasibility of a Parcel Tax Election (committee). In January 1986, the committee reported its findings on parcel tax elections in other districts, on why these elections succeeded or failed, on the district's current and projected budgets, on the results of the committee's public survey, and on the district's need for a parcel tax.

The committee recommended that the school board hold the election in June 1986 and that the tax be for \$84 a parcel and be in effect for three years. The district would have received revenue of approximately \$1,848,000 from this parcel tax, or 5.2 percent of the district's 1987-88 budgeted revenue. However, the school board postponed the election until March 1987. According to the president of the school board, the postponement was necessary because the district needed time to update its master plan, establish five-year projections on finances, update enrollment projections, and address other concerns of the school board.

According to the community relations liaison, the district notified the electorate of the need for a parcel tax in its newsletter, which is sent to every household in the district. The newsletter contained information on the financial problems of the district, steps taken to offset declining revenues, financial projections for five years, citizen input, and proposed uses of parcel tax revenue. In addition, the district's community relations liaison informed us that another citizens' committee, not formed by the school board, had produced a videotape on the parcel tax, which was shown on the peninsula's cable channel and was available for viewing at group meetings.

The parcel tax election was held in March 1987 and was for a tax of \$100 a parcel rather than the \$84 a parcel originally recommended by the committee, and it was to be in effect for five years. The revenue that the district would have received from the passage of a tax of \$100 a parcel would have been approximately \$2,200,000, or 6.2 percent of the district's 1987-88 budgeted revenue. The passage of the parcel tax failed because the measure received only 61.6 percent positive votes when 66.7 percent was required.

Developer Fees

The California Government Code, Sections 53080 and 65995, effective January 1, 1987, establishes guidelines for levying developer fees, which may be spent for the construction or reconstruction of

school facilities. The district began to assess and collect developer fees in 1987. We reviewed payment forms for approximately \$297,000 in developer fees that the district collected between June 1987 and March 1988. We also reviewed approximately \$532,000 in exemptions from these fees that the district awarded during this same period. For approximately \$73,000 of these exemptions, the district could not provide documentation that the exemption requests met all of the necessary criteria for approval.

To determine how other school districts have implemented the collection of developer fees, we interviewed representatives of five districts in the Sacramento area and five in Southern California. Of the ten districts, one began assessing developer fees on January 1, 1987, while the last district to impose fees began on March 28, 1988. Only one of the ten districts had granted an exemption from the payment of fees. This district's school board voted for the exemption when the developer threatened the school board with litigation. One other district has a formal appeal process for the granting of exemptions, but, because it has just begun to collect fees, the district has not yet used that process.

The District's Policies for Collecting Developer Fees

The district's school board passed a resolution on April 27, 1987, to begin imposing and collecting developer fees on June 25, 1987. Both the district's school board and superintendent

cited the parcel tax's failure to win voter approval as the reason for the district's imposition of developer fees. The school board's resolution authorized the district to charge each applicable development the maximum levy. The California Government Code, Section 65995, sets this maximum at \$1.50 per square foot for residential development and \$.25 per square foot for commercial or industrial development, until any future adjustment is made for inflation. However, the school board's resolution provided no other direction on the imposition and collection of developer fees, nor did it address the granting of exemptions. The district complied with the school board resolution and began collecting fees on June 25, 1987.

Problems With Procedures for
Collecting Developer Fees

Significant problems exist with the district's procedures for assessing and collecting developer fees. For example, the district did not inform the public that exemptions from developer fees were available until it issued a press release to certain newspapers on February 11, 1988. The district's Notice to Developers on Building Fee Information and the Development Fee Payment Procedure provide no information on the availability of exemptions or the process for obtaining an exemption from developer fees. In addition, the district's payment form, used for the payment of developer fees, does not indicate that an exemption is available. The district did not provide a press release to certain newspapers until February 11, 1988, indicating that exemptions from developer fees could be obtained;

consequently, some developers may have paid the fee when they could have received an exemption from the district. However, the assistant superintendent of business believed that staff in the building departments of the district's cities and Los Angeles County inform developers of applicable developer fees.

In addition, as late as April 1988, ten months after it began collecting developer fees, the district did not have written criteria for the granting of exemptions. Before April 1988, when we requested copies of written criteria, the district's assistant superintendent of business could provide none. The assistant superintendent stated that he used two criteria, both of which the district required before granting an exemption. First, he required documentation that developers submitted permit applications before March 1, 1987. In addition, he required documentation that the developer encountered a problem with the agency issuing the building permit that delayed the issuance of the building permit until after June 27, 1987. On April 28, 1988, each member of the district's school board, the superintendent, and the assistant superintendent of business acknowledged these criteria in writing.

In addition to not acknowledging these criteria until April 1988, the district could not always provide documentation that it followed its unwritten criteria for granting exemptions. In our review of the district's records for 78 developments, we found that the district allowed 27 exemptions, totaling approximately \$532,000. The

district awarded 13 of these 27 exemptions, which totaled approximately \$73,000, although the district could not provide supporting documentation to demonstrate compliance with the district's unwritten criteria. For example, one developer received an exemption from \$6,162 in fees even though he had no supporting documentation for his request for exemption. In addition, other requests for exemptions included letters from developers stating that planning of their structures had begun prior to March 1, 1987; however, no supporting documentation accompanied these letters.

In two cases, the district also levied developer fees for less than those required by the school board's resolution. Specifically, the district charged a developer fee that was less than the \$1.50 per square foot required by the district's school board. For one of these developments, the developer paid \$.75 per square foot and was exempted from paying fees on 13,000 square feet. The district's assistant superintendent of business stated that he reduced that developer fee because of unique requirements related to affordable housing, over which the developer had no control, that postponed construction by approximately one year. The other developer, who was building a 4,000 square foot house, paid \$.50 per square foot, one-third of the required developer fee. The assistant superintendent of business explained that he reduced this fee from \$1.50 to \$.75 because the developer's plans were lost by the agency of jurisdiction and the fees were reduced from \$.75 to \$.50 because of a clerical error.

The district imposed developer fees unequally. The district required developer fees for only one of two projects that had similar supporting documentation. One of these cases was the development with fees reduced to \$.75, previously discussed; the other was for phases one and two of a different development. According to the district's criteria, the district should have granted an exemption for both of these developments. Table 6 identifies the developer fees in our review that the district collected and exempted.

TABLE 6
DEVELOPER FEES REVIEWED

	<u>Total Developer Fees Reviewed</u>	<u>Developer Fees Collected by District</u>	<u>Developer Fees Exempted by District</u>	<u>Developer Fees Exempted Without Supporting Documentation</u>
Number of Forms	78	51	27	13
Dollar Amount	\$828,994	\$296,715	\$532,279*	\$73,416

* Includes \$274,500 in exempted fees as amended by an exemption notice signed April 29, 1988.

In addition to applying criteria inconsistently and not retaining supporting documentation, the district does not provide for sufficient separation of duties in the granting of exemptions. Specifically, the superintendent and assistant superintendent of

business are the only persons responsible for granting exemptions from developer fees, and no one at the district reviews the superintendent's or the assistant superintendent's decisions.

Finally, the district did not follow its normal control procedures when it accepted a postdated check for a developer fee payment made by the superintendent and failed to deposit the check promptly. At the superintendent's request, the district did not promptly deposit his check for approximately \$6,727, dated January 22, 1988, for the developer fee on his residence. The district's receipt for the payment is dated January 7, 1988, but the district did not deposit the check until March 3, 1988. The receipt for payment allowed the superintendent to receive his building permit from the City of Palos Verdes Estates on January 7, 1988. According to the assistant superintendent of business and the director of accounting, neither the acceptance of the postdated check nor the delay in depositing the check is in accordance with normal procedures in the district. The assistant superintendent of business stated that, in late February 1988, he discovered that the district had not deposited the superintendent's check. After depositing the check, the district charged the superintendent for interest lost on the undeposited check and collected this amount on March 17, 1988.

CONCLUSION

To raise revenue and cash, the Palos Verdes Peninsula Unified School District has sold or agreed to sell seven surplus properties for a total of approximately \$14.2 million since 1976 and is attempting to sell, rent, or lease most of its remaining pieces of surplus property. Revenue from rents and leases in 1986-87 was approximately \$467,000, and the district expects it to reach \$865,000 in 1987-88.

In another attempt to generate revenue, the district proposed a parcel tax assessment in March of 1987, but the tax failed to win voter approval. In June 1987, following the failure of the parcel tax, the district began collecting developer fees. However, significant problems exist with the procedures for collecting these fees. Specifically, the district did not inform the public of the availability of exemptions from these fees until it issued a press release to certain newspapers on February 11, 1988, did not promptly provide written criteria for the granting of exemptions, and did not provide for sufficient separation of duties related to the collection of developer fees. In addition, in 13 cases, the district could not provide documentation that it has followed its own unwritten criteria for granting exemptions or has followed its written criteria for the amount to be assessed for the developer fees. Finally, the district did not follow its

normal control procedures when it accepted a postdated check from the district superintendent and failed to deposit that check promptly.

RECOMMENDATIONS

To ensure that it collects all the fees to which it is entitled and to ensure that it applies criteria consistently for the collection of those fees, the Palos Verdes Peninsula Unified School District should take the following actions:

- Formally adopt written criteria on collecting developer fees;
- Communicate its written exemption policy on developer fees to the public in writing;
- Designate a committee to review, or itself review, all past and future requests for exemptions from developer fees and make consistent decisions on exemptions based on the written criteria that the school board formally adopts; and
- Ensure that it consistently follows its policy of not accepting postdated checks and that it deposits checks promptly.

III

THE PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT VOTED TO CLOSE MIRALESTE HIGH SCHOOL

In 1987, to avoid future financial problems, the district's school board examined various options to close and consolidate some of its schools. Before making its decision, the school board solicited responses to the options at three public hearings, and the majority of those in attendance who addressed the board favored two options. One option would close one of the district's three high schools while the other option would close both of the district's intermediate schools. In November 1987, the school board unanimously voted to close Miraleste High School (MHS). However, the East Peninsula Education Council, Inc. (EPEC), a group of local citizens, favored closing the intermediate schools, and it filed a lawsuit against the district to prevent the closing of MHS or to postpone it until the EPEC's efforts to establish a new district have been exhausted or successful. Before making its decision, the school board applied five criteria to each option: dollar savings, improvement of programs, grade-level groupings, relocation of students, and efficient use of facilities. Since the factors of dollar savings and the efficient use of facilities were similar for the two favored options, the school board based its final decision on the improvement in programs, the grade-level groupings, and the relocation of students.

Description of the Options To Close Schools

Since 1979, the district has closed five elementary schools and two intermediate schools in order to decrease expenditures. Appendix C lists chronologically the steps taken by the district to alleviate the effects of declining enrollment, including school closures. To further reduce expenditures, the district administration developed three major options for additional school consolidations and closures. Two of these options also had suboptions that identified alternative schools to close.

The district consists principally of three high schools, two intermediate schools, and eight elementary schools. The high schools are MHS, which is located on the east side of the district; Palos Verdes High School (PVHS), which is located on the west side of the district; and Rolling Hills High School (RHHS), which is located in the center of the district. Descriptions of the options follow:

Option A Option A would close both intermediate schools and relocate the students to one of the three high school sites, closing that site as a high school. Option A would also close one elementary school.

Option A-1 would use RHHS as the site for the intermediate school.

Option A-2 would use MHS as the site for the intermediate school.

Option B Option B would close both intermediate schools, relocating the seventh and eighth grades at the three high schools and the sixth grade at the elementary schools.

Option C Option C would close one high school and one elementary school.

Option C-1 would close RHHS specifically.

Option C-2 would close MHS specifically.

Option C-3 would close PVHS specifically.

Evaluation of the Options

Following criteria that the school board established, the administration analyzed the three options and communicated its findings to the public. The district used the following criteria to decide among the options: dollar savings of each option, improvement of educational programs, grade-level groupings, relocation of students from closed schools, and efficient use of facilities. Before making its decision, the school board solicited responses to the options at

three public hearings, and the majority of those in attendance who addressed the school board favored options B and C-2. The school board then voted unanimously to close a high school, specifically MHS (option C-2), at the end of the 1987-88 school year, but it decided against closing an elementary school, which had originally been a part of that option. As a result of the school board's choice, the EPEC, which favored closing both intermediate schools (option B), filed a lawsuit against the district to prevent MHS's closure or to postpone it until the EPEC's efforts to establish a new district have been exhausted or successful.

Since options other than B and C-2 did not receive much support at the three public hearings, we do not discuss them. However, we compared option C-2, which the district chose, to option B, which the EPEC favors. Whereas option C-2 would close MHS, relocating students to the district's other two high schools, option B would close both remaining intermediate schools, relocating seventh and eighth graders at the three high schools and sixth graders at the elementary schools. Table 7 is our summary of the criteria used to evaluate options B and C-2.

TABLE 7
EVALUATION OF OPTIONS B AND C-2

<u>Criteria</u>	<u>Option B (Both Intermediate Schools Closed)</u>	<u>Option C-2 (Miraleste High School Closed)</u>
Dollar Savings	\$915,000	\$1,031,000
Program Improvement	The chairperson of EPEC stated that option B would allow students in grades 7 and 8 to enroll in high school subjects, participate in high school activities, and have access to high school facilities.	The district superintendent stated that option C-2 would add more students and teachers to the remaining high school programs, which could increase the quantity and variety of course offerings for students in grades 9 through 12.
Grade Level Groupings at Schools	K-6 7-12	K-5 6-8 9-12
Relocation of students	Relocates 1,692 students	Relocates 1,270 students
Efficient Use of Facilities	Requires nine relocatable classrooms	Requires eight relocatable classrooms

Dollar Savings

One of the criteria used to choose among the options was the anticipated dollar savings from the exercising of each option. For any of the options, the net dollar savings would consist of the additional revenue and reduced expenditures resulting from the closing of schools less renovation costs. The savings from the closings of schools

consist of the following: reduced operating costs from the schools that are closed, including the salaries of certain administrative and classified employees; interest income from the sale of the facilities; and lease income from facilities that cannot be sold. The cost of renovation consists of moving costs and the costs of adding classrooms to the schools receiving the relocated students and teachers.

The district sent its estimate of the net dollar savings from options B and C in a pamphlet to school families and community members. Although the district based its estimate of net dollar savings on the closing of a high school and an elementary school, as called for under option C, it did not consider the savings from closing MHS specifically. Since the school board ultimately voted to close MHS under option C-2 and decided not to include the closure of an elementary school, the estimate of net dollar savings in the district's pamphlet does not accurately reflect the actual savings that would result from closing MHS.

In its pamphlet, the district estimated a net savings of \$1,040,000 for option B in the first year after school closure, and it estimated a net savings of \$1,385,000 for option C. Although these figures reflect an additional savings of \$345,000 under option C, the district superintendent stated that the school board did not consider the additional savings to be large enough to make a difference in the choice of options.

The EPEC disputed the district's estimates of the net savings for the options. The EPEC stated that the estimates for moving costs and for savings from the school closings that were distributed to the public were not the result of detailed analyses for each site based on that site's size, student population, number of teachers and staff, and other relevant factors, but instead were simply gross estimates of such costs based on the closing of other schools the previous year.

We also disagreed with the district's estimates because we were not able to rely on all of the district's calculations. Consequently, we developed an independent estimate based on the closing of the specific schools involved. Although we estimated the dollar savings for closing MHS specifically whereas the district estimated the savings based on closing a high school and an elementary school, our conclusion is similar to the district's: closing MHS specifically or closing a high school and an elementary school would result in greater net dollar savings than closing the intermediate schools. For the first year after schools are closed, the district calculated that option C would save \$345,000 more than option B, and we calculated that option C-2 would save \$116,000 more than option B. Tables 8 and 9 present a detailed comparison of the district's dollar savings estimate and our estimate for the options.

TABLE 8
A COMPARISON OF THE NET FIRST-YEAR SAVINGS
FROM CLOSING BOTH INTERMEDIATE SCHOOLS UNDER OPTION B

	<u>District's</u> <u>Estimate</u>	<u>Our</u> <u>Estimate</u>	<u>Overstated</u> <u>(Understated)</u>
<u>Savings From Closing Schools</u>			
Operating costs saved from closing both intermediate schools			
Salaries and benefits	\$ 528,000	\$ 580,000	\$(52,000)
Utilities	80,000	108,000	(28,000)
Maintenance supplies	8,000	8,000	
Difference between pamphlet estimate and supporting documentation	<u>134,000</u>	<u> </u>	<u>134,000</u>
Subtotal	<u>750,000</u>	<u>696,000</u>	<u>54,000</u>
Interest income from the sale of one intermediate school	350,000	207,000	143,000
Lease income from one intermediate school	<u>100,000</u>	<u>122,000</u>	<u>(22,000)</u>
Total Savings From Closure	<u>1,200,000</u>	<u>1,025,000</u>	<u>175,000</u>
Less: Cost of Renovation			
Cost of adding relocatable classrooms (both intermediate schools)	125,000	72,000	53,000
Moving costs of both intermediate schools	<u>35,000</u>	<u>38,000</u>	<u>(3,000)</u>
Total Cost of Renovation	<u>160,000</u>	<u>110,000</u>	<u>50,000</u>
Net Savings From Closure	<u>\$1,040,000</u>	<u>\$ 915,000</u>	<u>\$125,000</u>

TABLE 9

**A COMPARISON OF THE DISTRICT'S ESTIMATE OF NET FIRST-YEAR SAVINGS
FROM CLOSING A HIGH SCHOOL AND ELEMENTARY SCHOOL UNDER OPTION C
TO OUR ESTIMATE FOR CLOSING MHS UNDER OPTION C-2**

	District's Estimate For Closing a High School and Elementary School	Our Estimate For Closing MHS	Overstated (Understated)
<u>Savings From Closing Schools</u>			
Operating costs saved from closing a high school			
Salaries and benefits	\$ 574,000	\$ 607,000	\$(33,000)
Utilities	200,000	241,000	(41,000)
Maintenance supplies	5,000	5,000	
Difference between pamphlet estimate and supporting documentation	<u>(29,000)</u>	<u> </u>	<u>(29,000)</u>
Subtotal	<u>750,000</u>	<u>853,000</u>	<u>(103,000)</u>
Operating costs saved from closing an elementary school	150,000		150,000
Interest income from sale of a high school	490,000	352,000	138,000
Interest income from sale of an elementary school	<u>140,000</u>	<u> </u>	<u>140,000</u>
Total Savings From Closure	<u>1,530,000</u>	<u>1,205,000</u>	<u>325,000</u>
Less: Cost of Renovation			
Cost of adding relocatable classrooms (high school)	60,000	64,000	(4,000)
Cost of adding relocatable classrooms (elementary school)	50,000		50,000
Moving costs for a high school	20,000	110,000	(90,000)
Moving costs for an elementary school	<u>15,000</u>	<u> </u>	<u>15,000</u>
Total Cost of Renovation	<u>145,000</u>	<u>174,000</u>	<u>(29,000)</u>
Net Savings From Closure	<u>\$1,385,000</u>	<u>\$1,031,000</u>	<u>\$354,000</u>

We could not rely on the district's estimates of cost savings because the district did not document its calculations thoroughly and some amounts appear to be significantly overstated. For example, the district included savings from the closure of an elementary school in its estimate of savings under option C. The district's superintendent stated that he should not have included the closure of an elementary school under option C because the school board decided not to close an elementary school. By including the savings from the closure of an elementary school, the district overstated by \$225,000 the net savings that would result from closing MHS, the school that the school board voted to close. The \$225,000 represents the savings from closure less the costs of renovation associated with closing an elementary school as listed in Table 9.

In addition to including the closure of an elementary school in its estimate, the district overstated the amount of interest income from the sale of the school sites. The district based its calculations on previous sales or appraisals of other sites; however, the intermediate and high school sites that would actually be sold under the options are smaller sites. The district's superintendent stated that he did not analyze the size or location of the sites to be sold under the options. Because the district did not base its estimate of interest income on the particular sites involved, we estimate that the district overstated the net savings for closing the intermediate schools by approximately \$143,000, as Table 8 shows. In addition, the

district's estimate of interest income from closing a high school and an elementary school exceeds by \$138,000 our estimate of savings from closing MHS, as Table 9 shows.

An additional overstatement can be traced to a difference between the district's supporting documentation for the potential savings in operating costs under the options and the amounts that the district included in its pamphlet. According to the district's superintendent, the operating costs in the pamphlet were in error. This overstated the net savings from the intermediate schools by \$134,000 and understated the net savings by \$29,000 from closing a high school and an elementary school. The amounts are listed in Tables 8 and 9 as the difference between the pamphlet estimate and supporting documentation.

In a final example, the district did not include the cost of relocating the central kitchen from MHS in its estimate of the savings from closing a high school. Since the school board voted to close MHS, the district would need to relocate the central kitchen, which provides lunches for all of the district's elementary schools. In addition, the district's supporting documentation for other moving costs for a high school differed from the amount used in its pamphlet. Because the district did not accurately estimate the moving costs and did not base its estimate of savings on the closure of MHS specifically, the district's estimate of net savings from closing a high school and an elementary school exceeds by \$90,000 our estimate for closing MHS.

As shown in Table 8, the net effect of these and other differences resulted in the district's overstating by \$125,000 the net savings for the option that would close two intermediate schools. In addition, as shown in Table 9, the district's estimate for the net savings that would result from closing a high school and an elementary school exceed by \$354,000 our estimate of savings from closing MHS. We independently estimated a net savings of \$915,000 for closing the intermediate schools and of \$1,031,000 for closing MHS. Table 10 displays our calculations.

TABLE 10

**NET FIRST-YEAR SAVINGS FROM CLOSING BOTH INTERMEDIATE
SCHOOLS AND MHS UNDER OPTIONS B AND C-2**

	<u>Option B (Both Intermediate Schools Closed)</u>	<u>Option C-2 (Miraleste High School Closed)</u>
<u>Savings From Closures</u>		
Operating costs saved from closing schools		
Salaries and benefits	\$ 580,000	\$ 607,000
Utilities	108,000	241,000
Maintenance supplies	<u>8,000</u>	<u>5,000</u>
Subtotal	696,000	853,000
Interest income from sale of sites	207,000	352,000
Lease income from sites not sold	<u>122,000</u>	<u> </u>
Total Savings From Closure	<u>1,025,000</u>	<u>1,205,000</u>
Less: Cost of Renovation		
Cost of additional relocatable classrooms	72,000	64,000
Moving costs	<u>38,000</u>	<u>110,000</u>
Total Cost of Renovation	<u>110,000</u>	<u>174,000</u>
Net Savings From Closures	<u>\$ 915,000</u>	<u>\$1,031,000</u>

We based our calculations on several assumptions. For example, we assumed that any position that is not directly tied to enrollment could be eliminated if schools were closed. Appendix D describes the assumptions used in our calculations of the net savings for these options.

Program Improvement

Another criterion used to choose among the options was their anticipated effect on program improvement, which includes the quantity and variety of subjects available to the students. According to the district's superintendent, the district now offers a wide spectrum of subjects to its students, and most of the district's high school graduates attend college. However, the superintendent also stated that the high school programs are suffering because of a lack of students. In particular, he stated that lower enrollment causes difficulty in scheduling students into enough courses to make students competitive for entrance into the major prestigious universities. The district calculates the number of class sections available at a school based upon its projected enrollment. As of October 1987, the secondary enrollment (grades 9 through 12) was 861 at MHS, 1,643 at PVHS, and 1,559 at RHHS. Schools with higher enrollments, such as PVHS and RHHS, have more teachers than do schools with lower enrollments, such as MHS. According to the district's superintendent, more teachers can increase the potential for greater variety and availability of subjects offered. According to data that the district administration prepared,

MHS offered 93 subjects, PVHS offered 120 subjects, and RHHS offered 116 subjects during the 1987 fall semester.

The district's superintendent stated that, to maintain comparable programs, MHS must schedule more singleton classes and have more teacher preparations than PVHS and RHHS. The superintendent defined a "singleton" class as a subject that is only offered in one section a day. According to data that the district administration prepared, singleton classes constituted 60 percent of the total subjects offered in the 1987 fall semester at MHS, 38 percent at PVHS, and 47 percent at RHHS. According to the district's superintendent, singleton classes can cause scheduling conflicts. However, the district also determined that the majority of the scheduling conflicts are occurring in the elective subject areas.

The district's superintendent also expressed concern about teacher preparations, which he defined as the number of different subjects that a teacher has to teach. He stated that the optimum number of teacher preparations is two to three subjects and that teachers who exceed the optimum might be teaching outside of their areas of expertise. According to data that the district administration prepared, the percentage of teachers who exceeded three class preparations in the 1987 fall semester was 23 percent at MHS, 11 percent at PVHS, and 16 percent at RHHS. The superintendent further stated that adding MHS students to the programs at the other two high schools would improve the high school programs because the number of

teachers at the remaining high schools would increase, and additional teachers could increase the quantity and variety of subjects available.

The chairperson of the EPEC says that he does not believe that MHS currently has significant scheduling problems. The same EPEC representative has also identified other schools having enrollment comparable to or smaller than that at MHS, and he contends that those schools are not experiencing scheduling problems. Therefore, EPEC's chairperson does not believe that keeping MHS, a smaller high school, open would harm programs for students at MHS. On the contrary, he believes that closing MHS would reduce the leadership opportunities available in student government and would remove an important facility from the east peninsula.

Groupings of the Grade Levels at Schools

This criterion deals with the effect that the grade levels in a school have upon the educational and social development of the students and with the school board's preference for uniform grade levels at each elementary, intermediate, and high school in the district. Citing a 1987 report prepared by the State Department of Education, "Caught in the Middle," the district's superintendent recommended limiting the elementary schools to kindergarten through fifth grades (K-5), the intermediate schools to sixth through eighth grades (6-8), and the high schools to ninth through twelfth grades (9-12). "Caught in the Middle" emphasizes the uniqueness of

middle-grade (6-8) education. According to the report, the characteristics of middle-grade organization have been the subject of extensive research, and data strongly suggest that the organizational pattern of middle schools positively affects the students' achievement and personal development. The report also notes that districts having schools with groupings of grade levels other than 6 through 8 can work. However, according to the report, other groupings of grade levels require creative scheduling, and the middle grade students would require appropriate space.

The school board's criteria concerned maintaining the same grade levels at each elementary, intermediate, and high school in the district. Presently, the grade levels at the elementary and the high schools are not the same. Table 11 displays the grade-level groupings in the district's principal schools for the 1987-88 school year.

TABLE 11
GRADE-LEVEL GROUPINGS
1987-88 SCHOOL YEAR

<u>Number of Schools</u>	<u>Type of School</u>	<u>Grade Levels at School</u>
6	Elementary	K-5
2	Elementary	K-6
2	Intermediate	6-8
1	High School	7-12
<u>2</u>	High School	9-12
Total <u>13</u>		

The district's grouping of grade levels was uniformly K-5, 6-8, and 9-12 until the closure of Dapplegray Intermediate School in June 1987. The district has since relocated Dapplegray's sixth grade to two elementary schools and has relocated Dapplegray's seventh and eighth grades to MHS. Both option B, which would close the district's intermediate schools, and option C-2, which would close MHS, would restore uniform groupings of grade levels at each type of school in the district. However, if MHS were closed, the elementary schools would have only grades K-5, the intermediate schools grades 6-8, and the high schools grades 9-12. The district concluded that, based upon this criterion, the best option was C-2, to close MHS.

The chairperson of the EPEC challenged the basic assumption underlying the district superintendent's recommendation for the grouping of grade levels in schools: he does not believe that having separate facilities for intermediate schools is necessary and believes that intermediate students can attend classes at elementary and high schools without being affected educationally or socially. In addition, the EPEC has cited professional literature emphasizing that grade-level groupings at schools are less important than program quality and teacher effectiveness. The chairperson of the EPEC also stated that, instead of harming the students, option B would improve the educational programs for the seventh and eighth graders by allowing them to enroll in high school subjects, participate in high school activities, and have access to high school facilities. According to the chairperson of

the EPEC, other schools successfully combine grades 7-12; therefore, such a program could be successful in this district.

Relocation of Students

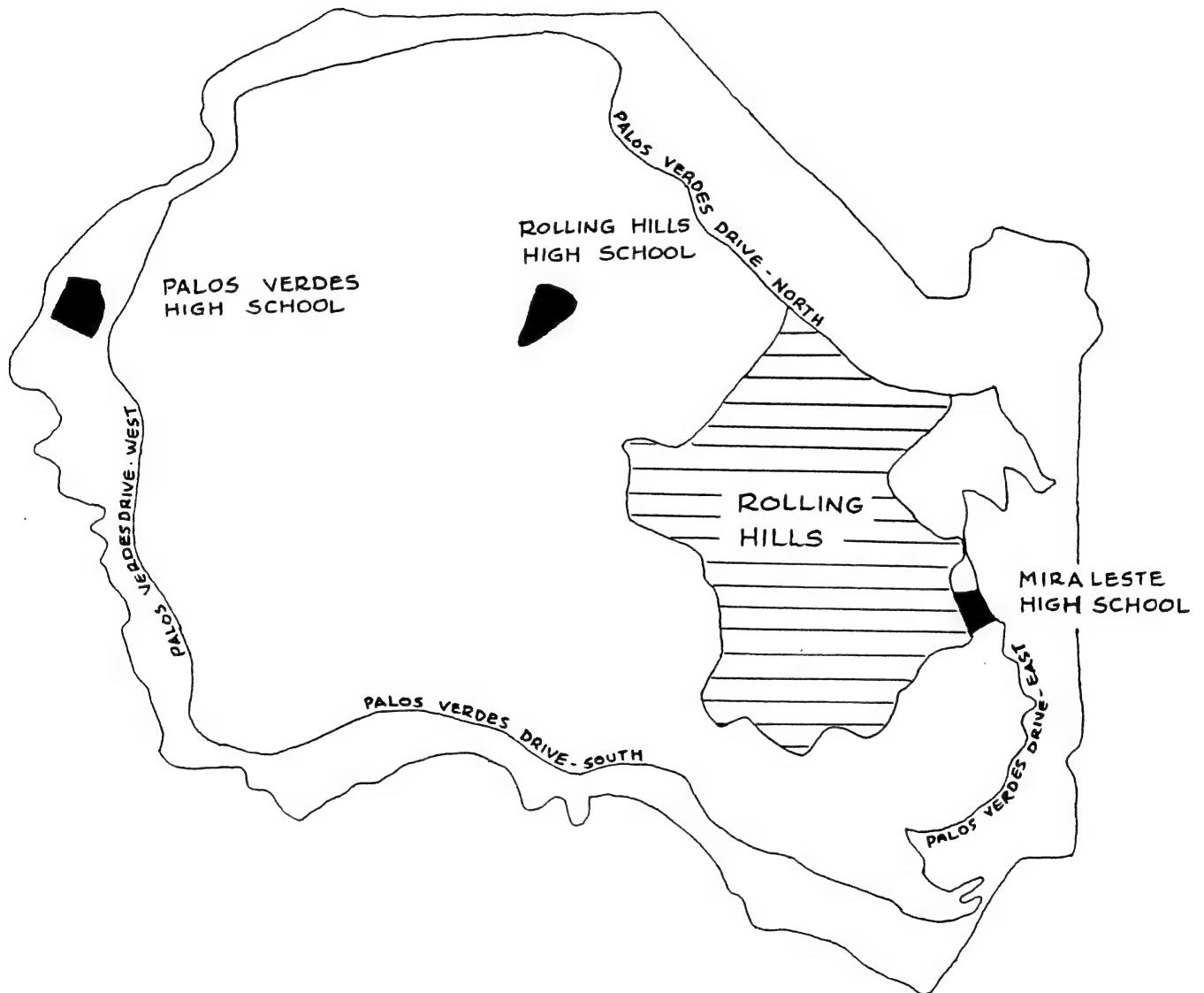
This criterion deals with the relocation of students from closed schools. The district prefers relocating the fewest number of students when closing schools. Because the district does not provide bus service, relocated students would have to provide their own transportation. Based on enrollment as of October 1987, we calculated that option B would relocate 1,692 students and option C-2 would relocate 1,270 students. Appendix E shows the location of the student population throughout the district.

Several geographical factors present unique problems for transporting students on the peninsula. Drivers cannot always take the most direct routes because of the peninsula's terrain. Also, the City of Rolling Hills, which is located in the eastern part of the district, is a private community that allows only residents and guests to travel through the area. Other traffic must travel around the city. In addition, access to the peninsula is provided mainly by a loop road that encircles the peninsula. This loop is made up of Palos Verdes Drive (PVD) North, South, East, and West. According to the EPEC, PVD South is frequently under repair because of the damaging effects of landslides, and PVD East has a high accident rating because of its sharp curves and steep terrain.

According to a traffic analysis report provided by the City of Rancho Palos Verdes, access to and from MHS is limited because PVD East provides the only access to the school. Access to MHS is also limited by its location next to the City of Rolling Hills, which prohibits public travel. Illustration 1 displays the location of MHS in relation to the locations of the district's other principal high schools.

ILLUSTRATION 1

THE LOCATION OF MHS IN RELATION TO
THE LOCATIONS OF PVHS AND RHHS



Notice that MHS is located between the City of Rolling Hills, which prohibits public travel, and PVD East, which has a high accident rating.

The EPEC also recognizes the special problems that the topography of the peninsula presents for transporting students. The EPEC objects to closing MHS because some students would need to increase their present travel miles on inconvenient and occasionally hazardous roads such as PVD South and PVD East. In addition, the EPEC calculated that the average MHS student would have to travel approximately 11 additional miles daily if the district were to close MHS.

The district's superintendent recommended closing MHS because this option would require relocating the fewest number of students.

Efficient Use of Facilities

The district's final criterion deals with the use of facilities. The district's superintendent believes that any consolidation of existing facilities under the options would result in more efficient use of schools. However, the best option, according to the district's superintendent, requires the least modification to the schools receiving students from closed sites.

According to the district's superintendent, if relocating students caused a receiving school to exceed its maximum capacity, the district would have to lease or purchase relocatable classrooms (relocatables) to increase the capacity of the receiving school. In choosing between the options, the district's superintendent preferred

to minimize the number of relocatables required because the cost of additional relocatables would decrease the savings from school closures.

Because the district's superintendent could not provide supporting documentation for his calculation of the number of relocatables needed under each option, we estimated additional relocatables needed based on the enrollments and capacities of the schools as of October 1987. We estimate that closing the two intermediate schools would require 9 relocatables and closing MHS would require 8. However, the district estimated that it would need 25 additional relocatables if it closed the intermediate schools, and it estimated that it would need 22 relocatables if it closed a high school and an elementary school. The district did not estimate the number of additional relocatables required for closing MHS specifically. Although our calculations for the number of additional relocatables needed differ significantly from the district's calculation, both sets of calculations show little difference between the option for closing the intermediate schools and the option for closing one of the district's high schools and an elementary school or MHS specifically.

CONCLUSION

To decrease expenditures, the school board of the Palos Verdes Peninsula Unified School District examined various options to close and consolidate the district's schools. Before making its decision, the school board solicited responses to the options at three public hearings, and the majority of those in attendance who addressed the school board favored options B and C-2. Option B would close both intermediate schools and option C-2 would close Miraleste High School. The school board applied five criteria to each option: the dollar savings, the improvement of programs, the effect of different grade-level groupings at schools, the relocation of students, and the efficient use of facilities. Since the dollar savings and the efficient use of facilities were similar for both favored options, the school board based its final decision on the improvement in programs, the positive effect on the grouping of grade levels at schools, and the relocation of fewer students which would occur if MHS were closed. The EPEC preferred closing the intermediate schools because of potential program improvement and the grade-level groupings. Furthermore, the EPEC objected to the additional miles that students relocated would have to travel if MHS were closed. The final decision rested with the school board, which, in November 1987, unanimously voted to close MHS under option C-2.

IV

A GROUP OF CITIZENS IS TRYING TO ESTABLISH A NEW DISTRICT IN THE EAST PENINSULA AREA

As part of an effort to keep Miraleste High School (MHS) open, the group of citizens organized as the East Peninsula Education Council, Inc. (EPEC), is taking steps to establish a new school district. In December 1987, the EPEC filed a lawsuit in the Superior Court of the State of California for the County of Los Angeles (state court) to prevent the closure of MHS or to postpone it until the EPEC's efforts to establish a new district are either exhausted or successful. In addition, the EPEC has submitted a petition to Los Angeles County to form a new district. If the proposed new district had been established during 1986-87, we estimate that the current district's revenue would have been reduced by approximately \$5.9 million, and its expenditures would have been reduced by approximately \$6.2 million. The EPEC, on the other hand, has proposed a preliminary 1987-88 budget for the new district that anticipates \$6.1 million in revenue and \$5.9 million in expenditures. This preliminary budget shows certain differences in spending priorities from those at the current district and at ten other districts in Los Angeles and Orange counties. For example, the proposed budget for the new district would reduce expenditures for classified employees and for the district office. The EPEC and the administration of the

current district also have different perspectives on various issues such as future enrollment trends as they relate to the formation of a new district.

Legal Action To Prevent or
Postpone Closing MHS

On December 18, 1987, the EPEC filed a lawsuit in the state court seeking to prevent the current district from taking any further action to close MHS or to postpone the closing until the members of the EPEC and other interested community residents have exhausted their efforts to organize a new district. According to the district's community relations liaison, as of May 19, 1988, the judge's rulings in this lawsuit had not been filed and were not available in written form. However, based on a summary prepared by the district's attorney for this lawsuit, the district's community relations liaison stated that in the granting of the writ of mandate the judge ruled that the district could not close MHS until the district complied with the requirements of the California Environmental Quality Act. The same district representative also stated that the district intends to appeal this decision.

Procedures for the
Formation of a New District

The California Education Code, Sections 35500 through 35767, includes the procedures for organizing a new school district. These procedures, as implemented by Los Angeles County, include the following: petitioners must submit a petition for a new district to the county superintendent's office; public hearings are held in each affected district; the county committee recommends approval or rejection of the proposal; the State Board of Education holds hearings and approves or rejects the petition; if the State Board of Education approves the petition, voters then decide the issue. According to the California Education Code, Section 35756, the State Board of Education determines the territory of districts in which the election will be held.

The chairperson of the EPEC's New District Committee stated that, in February 1988, the EPEC filed a petition with Los Angeles County to establish a new district, consisting of three schools in the east peninsula, including MHS. This petition gives three reasons for a new district: to ensure child safety through reduced commuting; to preserve community resources by preventing the sale of district property that the community uses for recreation, athletics, and social events; and to promote equal access to education and extracurricular activities for students in the east peninsula.

According to the chairperson of the EPEC's New District Committee, the EPEC has submitted the petition, and the county committee plans to hold two public hearings in May 1988.

Historical Information on the Formation of New School Districts in California

To help evaluate the feasibility of forming a new district, we obtained historical information from the State Department of Education (department). According to a representative of the department's Office of Financial Management, department records show that, from 1975 through May 1988, 30 new unified districts have been created. The department's representative also told us that almost all of these new districts were established along lines of existing elementary school districts when the citizens decided to establish their own high school. In a smaller number of instances, citizens have established new districts by dividing existing unified school districts as proposed in the Palos Verdes area. Thus, although new districts have been formed in the manner proposed by the EPEC, this is not as common as creating a district to establish a new high school.

Financial Impact of a New District on the Current District

The district's assistant superintendent of business told us that the district has not done a detailed analysis of the financial impact that the proposed district would have on the current district.

Therefore, to determine this financial impact, we calculated the portion of the general fund expenditures and revenue attributable to operating the three schools in the proposed new district during fiscal year 1986-87. Our analysis in Appendix F shows that, if the three schools in the east peninsula area had not been part of the district during fiscal year 1986-87, the district would have had reduced expenditures of approximately \$6.2 million and reduced revenue of approximately \$5.9 million during that fiscal year. In doing our analysis, we assumed that many categories of expenditures and state revenue would decrease in proportion to the anticipated decline in enrollment caused by forming the new district. Appendix F also lists the key assumptions that we made in doing our analysis.

Appendix F does not take into account several factors that could adversely affect the current district. For example, the district administration believes that the loss of the property within the proposed district's boundaries would have a significant impact. This impact is expected because the proposed district area includes the current district's maintenance facility, warehouse, and continuation high school, as well as some surplus property. Some of this surplus property, according to the district, is being sold or leased by the district to help compensate for the district's current financial problems.

Proposed Budget for the
Operation of the New District

As part of its planning, the EPEC prepared a proposed budget for the new district. This budget shows general fund revenue of approximately \$6.1 million and expenditures of approximately \$5.9 million if the proposed district had been operating during fiscal year 1987-88. In addition, although this proposed budget is only an early draft, it indicates some of the spending priorities for this group of citizens as of March 5, 1988.

To analyze the EPEC's general spending priorities, we compared the EPEC's proposed costs per student for the 1987-88 fiscal year to the current district's costs per unit of ADA and to the range of costs per unit of ADA in ten other local districts during the 1985-86 fiscal year.² To make this comparison, we adjusted the EPEC's 1987-88 proposed expenditures to take into account salary and price increases for the preceding two years. Table 12 shows the results of this comparison. For example, the EPEC proposes to spend approximately \$114 less per student on salaries for classified employees than any of the ten other local districts. The EPEC also proposes spending less per unit of ADA for salaries for classified employees than the current

²Because the proposed district has no ADA figures, we based our comparisons on the anticipated enrollment of the proposed district to the ADA of the current district and the ten other local districts. According to the current district's director of accounting, ADA is approximately 98.5 percent of student enrollment.

district spent. However, our analysis also shows that the EPEC proposes to spend \$69 more per student on contracted services than the current district spent.

TABLE 12

**COMPARISON OF THE EPEC'S PROPOSED EXPENDITURES
PER STUDENT TO EXPENDITURES PER ADA FOR
PALOS VERDES AND TEN OTHER SCHOOL DISTRICTS**

<u>Account</u>	<u>Ten Districts \$ Per ADA Range FY 1985-86</u>	<u>Palos Verdes \$ Per ADA FY 1985-86</u>	<u>EPEC Proposed \$ Per Student FY 1985-86*</u>	<u>EPEC Proposed \$ Per Student FY 1987-88</u>
1000 Certificated Salaries	\$1,444 - \$2,223	\$1,679	\$1,588	\$1,803
2000 Classified Salaries	446 - 693	498	332	377
3000 Employee Benefits	384 - 682	404	384	436
4000 Books and Supplies	113 - 180	104	159	170
5000 Contracted Services and Other Operating Expenditures	125 - 361	287	356	381
6000 Capital Outlay	37 - 132	35	62	66
7000 Other	_____ - _____	_____	<u>42</u>	<u>45</u>
Totals	<u>\$2,549 - \$4,271</u>	<u>\$3,007</u>	<u>\$2,923</u>	<u>\$3,278</u>

* This column has been adjusted to remove inflation and salary increases so that the EPEC's projections can be made comparable to actual expenditures in 1985-86 at the district and the ten other districts. Salaries and benefits were adjusted using 6 percent to adjust 1987-88 amounts to 1986-87 and 6.33 percent to adjust from 1986-87 to 1985-86. Other expenditure amounts were adjusted using a factor of 3.3 percent per year.

To identify more specifically the differences between the EPEC's and the district's allocation of expenditures, we compared the proposed budget for the new district with our estimate of the current district's 1986-87 revenue and expenditures attributable to the three east peninsula schools within the boundaries of the proposed district. Appendix G provides the detail of our analysis. The revenue amounts were similar; however, the expenditure amounts were noticeably different. The primary differences in expenditures result from the EPEC's proposal to reduce salaries and benefits.

Salaries and benefits differ between the EPEC's proposed budget and the current district's expenditures because the EPEC proposes using 74 teachers instead of 82, 3 guidance counselors and one psychologist instead of 5 guidance counselors, 4 administrators instead of 6, 8 clerical employees instead of 14, and 11 maintenance workers instead of 15.

In contrast, the proposed budget would allocate more for books and supplies and more for contracted services than the current district spent.

The preceding comparisons do not include certain significant factors in the finances of the school districts, and these factors may affect the overall comparison. For example, the comparisons are for general fund activities only. We did not include other funds such as the cafeteria fund because, in the current district, the general fund

accounts for 93 percent of total revenue and 95 percent of total expenditures. In addition, the number of staff to be employed in the new district is affected by the provisions of the California Education Code, Sections 35555 and 35556, which provides for specific employment rights and job retention rights to employees affected by the formation of a new school district.

In addition to the costs for operating the three schools in the proposed new district, the EPEC estimated that operating the district office would cost \$244,000, approximately 4.1 percent of its total expenditures; in contrast, the current district spends 7.9 percent. The average expenditures for operating the district office in the ten other local districts is 7.2 percent of their total expenditures. The EPEC's projected costs are lower, in part, because the EPEC plans to reduce district administration costs by having the principal of MHS also serve as the district superintendent whereas the current district has a fulltime superintendent. Also, the EPEC plans to have only one assistant principal at MHS whereas the current district has two assistant principals at this school.

Differing Perspectives on Issues Relating To the Formation of a New District

To help assess the proposal to create a new district, the Los Angeles County Committee on School District Organization (county committee) asked the current district and the EPEC to answer questions

about the proposed district and its effect on the current district. The responses of the two groups illustrate their different assumptions about several issues including enrollment and the quality of transportation.

While the district believes that the enrollment will continue to decline, the EPEC expects enrollment to decline only until the 1989-90 school year and then begin to increase. Both the current district and the EPEC have based their projections on the work of consultants. The EPEC also predicts that as many as 200 new homes may be built in the proposed district area during the next five years and notes that a large development has been proposed for a local quarry site, which could result in still another 500 homes being built during the next ten years. The current district believes, on the other hand, that the area is rapidly reaching its maximum capacity for new homes.

The EPEC and the district also have different views on transportation issues. According to the EPEC, student transportation and hazardous road conditions are important issues that the county committee must consider when it decides whether to recommend approval or rejection of the petition. Specifically, the EPEC is concerned that the closure of MHS will subject students in the east peninsula area to excessive traveling and hazardous road conditions. In contrast, the district contends that the anticipated completion of a new road will improve the access to the schools on the west side of the peninsula.

The EPEC also believes that having seventh and eighth grade students on the same campus with high school students provides several educational advantages. Therefore, the EPEC plans to continue to have MHS serve students in grades 7 through 12 should the new district be formed. By doing this, the new district would be able to continue having six-year programs in mathematics, language, and science, in addition to giving seventh and eighth grade students access to educational programs such as foreign language, computer, and typing classes not available at other intermediate schools. According to the superintendent of the current district, the best educational structure for students consists of elementary, intermediate, and high schools that serve grades kindergarten through fifth grades, sixth through eighth grades, and ninth through twelfth grades, respectively. According to the current district, opportunities for student government and other activities increase for the intermediate students when they are in their own school.

CONCLUSION

The East Peninsula Education Council, Inc., has taken legal action to prevent or delay the closure of Miraleste High School and has begun procedures to form a new school district. The Los Angeles County Committee on School District Organization will recommend approval or rejection of the proposal to the State Board of Education. If the State Board of Education approves the proposal, residents will vote to decide whether or not to form a new district.

We estimate that, if the three schools in the east peninsula had not been part of the current district during 1986-87, the current district's general fund revenue would have been reduced by approximately \$5.9 million and its expenditures would have been reduced by approximately \$6.2 million. The budget for the general fund that the EPEC has proposed for the new district indicates some changes in spending priorities from those of the current district, including having fewer teachers, administrators, clerical employees, and maintenance staff.

The EPEC and the current district administration also have differing perspectives on several issues related to the formation of a new district, including enrollment, student transportation, and grade-level groupings.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: May 23, 1988

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APPENDIX A

**LISTING OF TEN SCHOOL DISTRICTS
USED FOR COMPARISON PURPOSES**

We compared expenditures for the following ten unified school districts in Los Angeles and Orange counties to the expenditures of the Palos Verdes Peninsula Unified School District:

<u>School District</u>	<u>Average Daily Attendance In 1985-86</u>
Santa Monica-Malibu	9,288
Inglewood	16,704
Baldwin Park	16,951
Arcadia	7,341
Glendale	19,812
El Segundo	1,955
Newport Mesa	16,682
Irvine	17,820
Capistrano	19,856
Placentia	17,360

**CLASSIFICATION OF EXPENSE REPORT ACCOUNTS
USED BY SCHOOL DISTRICTS**

This appendix shows how we categorized each of the accounts used by school districts. To determine how to classify the various accounts used by school districts, we analyzed a standard expense report that the State's 1,028 school districts submit to the State Department of Education. We have divided the accounts into four categories: administration, support, pupil services, and classroom. We have further subdivided two of the categories into district office and school site locations. Within each category, we group the accounts by type such as salaries, services, or equipment. These are the same procedures that we used for the report, "Spending of Educational Resources at the State and Local Levels, July 1, 1981 Through June 30, 1986" (F-719), issued by the Office of the Auditor General in November 1987.

Many of the accounts listed below are followed by a percentage. These accounts have expenses that should be distributed into more than one category. The percentage indicates how much of the expense should be included in that particular category. For example, salaries and benefits listed under district-office administration shows that 50 percent of the account that is numbered 3900 should be included in this category; the remaining 50 percent is shown in the salaries and benefits category listed under school-site administration.

ADMINISTRATION

District Office:

Salaries and Benefits

1700	Superintendents' salaries
1800	Certificated salaries of administrative personnel
2200	Classified salaries of administrative personnel
2300	Clerical and other office salaries (41%)
3900	Other benefits (50%)

Services and Operating Expenditures

4500	Other supplies (17%)
5200	Travel and conference expenses (45%)
5300	Dues and memberships
5430	Fidelity bond premiums
5600	Contracts, rents, and leases (Education Code, Section 56366) (14%)
5600	Rentals, leases, and repairs (19%)

Services and Operating Expenditures (continued)
 5700 Legal, election, and audit expenses
 5750-99 Direct costs for interfund services
 5800 Other services and operating expenditures (53%)

New and Replacement Equipment
 4800 Equipment and replacement (7%)
 6400 Equipment (9%)
 6490 All other equipment (7%)
 6500 Equipment replacement (6%)

School Sites:

Salaries and Benefits
 1200 School administrators' salaries
 1300 Supervisors' salaries
 1900 Other certificated personnel (20%)
 2300 Clerical and other office salaries (50%)
 3900 Other benefits (50%)

Services and Operating Expenditures
 4500 Other supplies (16%)
 5200 Travel and conference expenses (15%)
 5440 Pupil insurance
 5600 Contracts, rents, and leases (Education Code, Section 56366) (3%)
 5800 Other services and operating expenditures (3%)

New and Replacement Equipment
 4800 Equipment replacement (4%)
 6400 Equipment (6%)
 6490 All other equipment (4%)
 6500 Equipment replacement (11%)

SUPPORT

District Office:

Maintenance and Operating Salaries
 2400 Maintenance and operations salaries (6%)

Supplies and Replacement Equipment
 4500 Other supplies (3%)
 4800 Equipment replacement (2%)

Services and Operating Expenditures
 5410 Fire and theft (2%)
 5420 Liability insurance (2%)
 5450 Other insurance (5%)
 5500 Utilities and housekeeping services (9%)

Services and Operating Expenditures (continued)

5600	Contracts, rents, and leases (Education Code, Section 56366) (1%)
5600	Rentals, leases, and repairs (1%)
5800	Other services and operating expenditures (1%)

Purchase and Improvement of Sites, Buildings, and Equipment

6100	Sites and improvement of sites (1%)
6200	Buildings and improvement of buildings (25%)
6400	Equipment (3%)
6490	All other equipment (2%)

School Sites:

Maintenance and Operating Salaries

2400	Maintenance and operations salaries (94%)
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Food Services

2500	Food services salaries
4710	Food
4720	Meals for needy pupils
4790	Other food services

Transportation

2600	Transportation salaries
4600	Pupil transportation supplies

Services and Operating Expenditures

2300	Clerical and other office salaries (2%)
2900	Other classified salaries (7%)
4500	Other supplies (58%)
5410	Fire and theft (98%)
5420	Liability insurance (98%)
5450	Other insurance (95%)
5500	Utilities and housekeeping services (91%)
5600	Contracts, rents, and leases (Education Code, Section 56366) (56%)
5600	Rentals, leases, and repairs (56%)
5800	Other services and operating expenditures (36%)

Purchase and Improvement of Sites, Buildings, and Equipment

6100	Sites and improvement of sites (99%)
6200	Buildings and improvement of buildings (75%)

New and Replacement Equipment

4800	Equipment replacement (32%)
6400	Equipment (19%)
6430	Food service equipment
6440	Pupil transportation equipment
6490	All other equipment (32%)
6500	Equipment replacement (17%)

PUPIL SERVICES

Library Services

1400	Librarians' salaries
6300	Books and media for new school libraries or major expansion of school libraries
6310	Library books
6320	Library materials

Guidance, Welfare, Attendance, and Physical and Mental Health Services

1500	Guidance, welfare, and attendance salaries
1600	Physical and mental health salaries

Other Salaries and Benefits

2300	Clerical and other office salaries (7%)
2900	Other classified salaries (93%)

Services and Operating Expenditures

4500	Other supplies (3%)
5200	Travel and conference expenses (5%)
5600	Contracts, rents, and leases (Education Code, Section 56366) (3%)
5800	Other services and operating expenditures (2%)

New and Replacement Equipment

6400	Equipment (2%)
6410	Audiovisual equipment
6420	Library equipment
6500	Equipment replacement (1%)

CLASSROOM

Salaries and Benefits

1100	Teachers' salaries
1900	Other certificated personnel (80%)
2100	Instructional aides for direct teaching assistance
3110	State Teachers' Retirement System - teachers
3210	Public Employees' Retirement System - instructional aides
3310	Social Security - instructional aides
3330	Medicare benefits - instructional personnel
3410	Health and welfare benefits for teachers and instructional aides
3510	Unemployment insurance for teachers and instructional aides
3610	Workers' compensation insurance for teachers and instructional aides

Books, Materials, and Supplies

4110	Textbooks, General Purpose Funds
4140	Textbooks (Education Code, Section 60242)
4150	Textbooks (Education Code, Section 60247)
4210	Books other than textbooks, General Purpose Funds
4240	Books other than textbooks (Education Code, Section 60242)
4250	Books other than textbooks (Education Code, Section 60247)
4310	Instructional materials and supplies, General Purpose Funds
4340	Instructional materials and supplies (Education Code, Section 60242)
4350	Instructional materials and supplies (Education Code, Section 60247)
4410	Instructional materials
4420	Instructional media supplies
4440	Instructional media materials (Education Code, Section 60242 (b))
4500	Other supplies (3%)

Services and Operating Expenditures

5110	Personal services, General Purpose Funds
5140	Personal services (Education Code, Section 60242)
5200	Travel and conference expenses (35%)
5600	Contracts, rents, and leases (Education Code, Section 56366) (23%)
5600	Rentals, leases, and repairs (12%)
5700	Interdistrict and nonpublic schools
5800	Other services and operating expenditures (5%)

New and Replacement Equipment

4800	Equipment replacement (55%)
6400	Equipment (61%)
6490	All other equipment (55%)
6500	Equipment replacement (65%)

ACCOUNTS PRORATED TO SALARIES

3120	State Teachers' Retirement System - other than teachers
3220	Public Employees' Retirement System - other than instructional aides
3320	Social Security - other than instructional aides
3340	Medicare benefits - noninstructional personnel
3420	Health and welfare benefits for all other employees
3520	Unemployment insurance for all other employees
3620	Workers' compensation insurance for all other employees

APPENDIX C

**CHRONOLOGY OF STEPS TAKEN TO ALLEVIATE THE
EFFECTS OF DECLINING ENROLLMENT IN THE
PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

<u>Year</u>	<u>Event</u>
1979	The Committee To Study the Impact of Declining Enrollment submitted its report to the school board. This report addressed the most cost-effective ways of dealing with declining enrollment.
1980	The school board closed La Cresta, Ladera Linda, and Pedregal Elementary schools.
1981	The school board adopted the Long-Range Comprehensive Master Plan. The plan contained a five-year implementation plan to provide adequate facilities while maintaining a fiscally sound program.
1982	The school board closed Miraleste and Valmonte Elementary schools.
1983-84	The Miraleste-Dapplegray Committee studied whether combining Miraleste High School and Dapplegray Intermediate School would provide the flexibility and programs needed in the district.
1985	The school board closed Margate Intermediate School.
1986	The school board authorized hiring a consultant to help the district dispose of surplus property or find alternative uses for it.
January 1987	The school board adopted the Long-Range Comprehensive Master Plan, which revised the 1981 plan. The plan recommended that school closures, site management, and a parcel tax be implemented to solve the district's financial crisis. Furthermore, the plan stated that, individually, school closures, site management, or a parcel tax would not solve this crisis. The plan also contained a five-year implementation plan to achieve financial solvency and educational excellence.
March 1987	A parcel tax election failed to win approval in a special election.

<u>Year</u>	<u>Event</u>
April 1987	The school board approved the levy of developer fees.
June 1987	The school board closed Dapplegray Intermediate School.
September 1987	Miraleste High School added seventh and eighth grade students, and Mira Catalina and Rancho Vista Elementary schools added sixth grade students who formerly attended the Dapplegray Intermediate School.
November 1987	The school board unanimously approved the closure of Miraleste High School effective at the end of the 1987-88 school year.

APPENDIX D

ASSUMPTIONS FOR CALCULATING THE NET SAVINGS UNDER OPTIONS B AND C-2

We made the following assumptions when we calculated the net dollar savings for options B and C-2:

Salaries and Benefits

We assumed that certain administrative and classified positions, which are not based on enrollment, could be eliminated if schools were closed. We used the district's budgeting formulas to determine which positions are not based on enrollment. We based our calculations on the average annual salaries and benefits for the eliminated positions as of May 1987.

Utilities

We used the district's actual 1986-87 expenditures for gas, electric, and water at each school. However, we were unable to separate the utilities costs associated with the central kitchen at MHS from the total utilities costs of the school. The district would still incur the utilities costs associated with the kitchen at its new location. Therefore, the utilities costs savings as listed under option C-2 are overstated by the costs associated with the MHS kitchen.

Maintenance Supplies

Because of the immateriality of the amounts involved, we did not independently estimate the amount that the options would save on maintenance supplies. Instead we used the district's estimate.

Interest Income From the Sale of Sites

We assumed that the sites would be sold immediately after the schools closed. Since the district superintendent stated that the district does not have property appraisals for existing schools, we based our calculations on recent sales or appraisals of other sites. We calculated the average value per acre and applied the result to the actual acreage of the sites that would be sold. We used an interest rate of 7 percent, which is the approximate rate on the district's deposits with the county as of June 1987.

Lease Income From Sites Not Sold

We assumed that the sites would be leased immediately after the schools closed, and we based our calculation on a site that is currently leased. We calculated the lease income per classroom under the current lease and applied the result to the total number of classrooms at the school that would be leased.

Cost of Additional Relocatable Classrooms

We calculated the number of required relocatables based on the enrollment and capacities of the schools as of October 1987. We assumed that enrollment exceeding 90 percent of a school's maximum capacity would require relocatables. We used the district's estimate of \$8,000 as the cost to add one relocatable.

Moving Costs

Because of the immateriality of the amounts involved, we did not independently estimate these amounts. Instead, we used the district's estimates of moving costs. However, for option C-2, we included the district's separate estimate of the cost of moving the central kitchen from MHS.

**THE LOCATION OF STUDENTS IN THE
PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT***

The following map displays the number of students (grades K-12) by location in the school district. (Eighty-four additional students live outside of the district.)

The map displays a grid of 100 cells, each labeled with a numerical value. A thick black line, representing the transect, starts at the top right and winds through the grid towards the bottom center. A compass rose in the top right corner indicates the cardinal directions: North (N), South (S), East (E), and West (W).

-83-

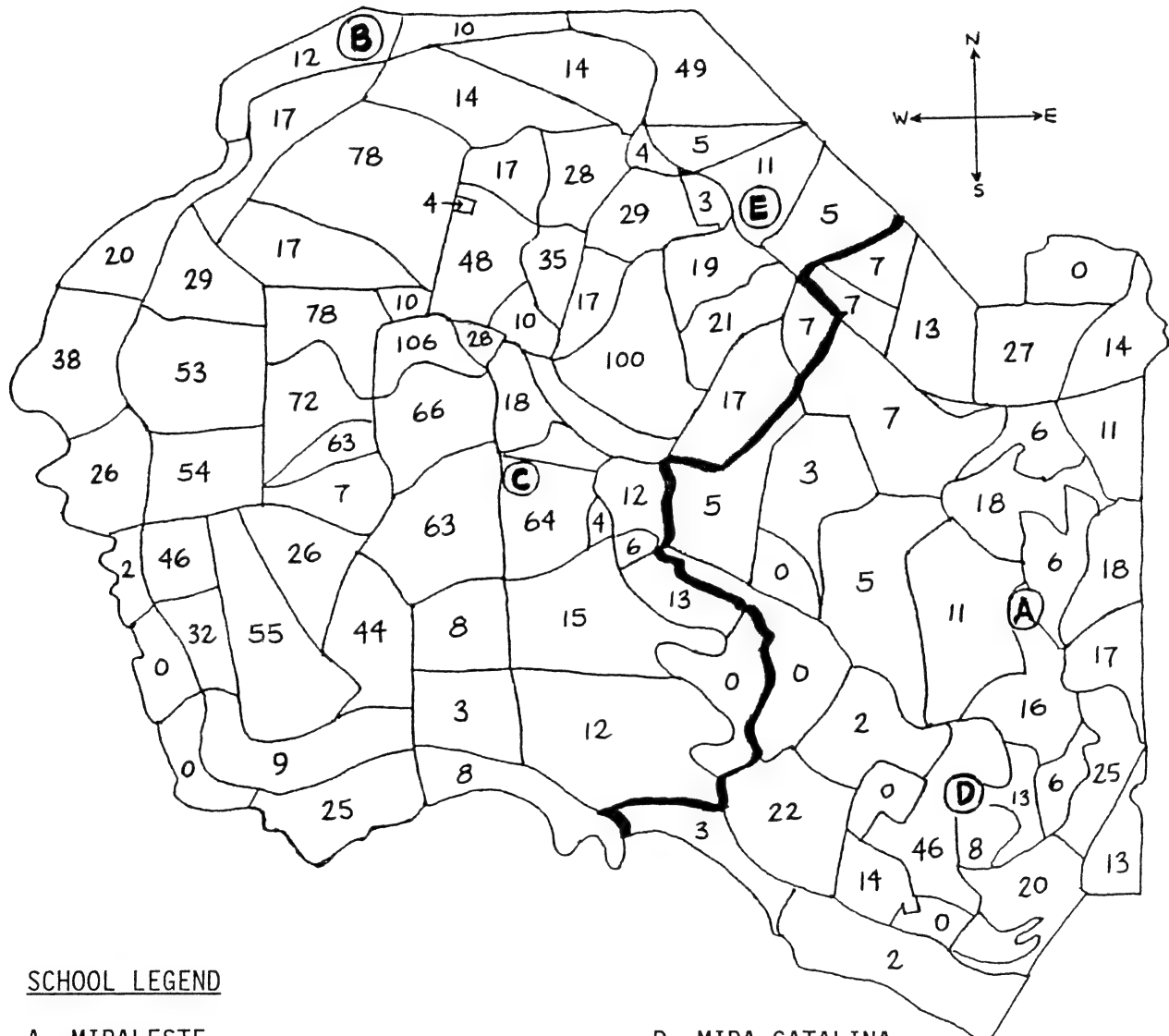
The following map displays the number of students (grades 9-12) by location in the school district. (Twenty-seven additional students live outside of the district.)

A PALOS VERDES
B ROLLING HILLS
C MIRALESTE

GRADES 6-8

The following map displays the number of students (grades 6-8) by location in the school district. (Nineteen additional students live outside of the district.)

The area east of the darkened line represents the proposed new school district.



SCHOOL LEGEND

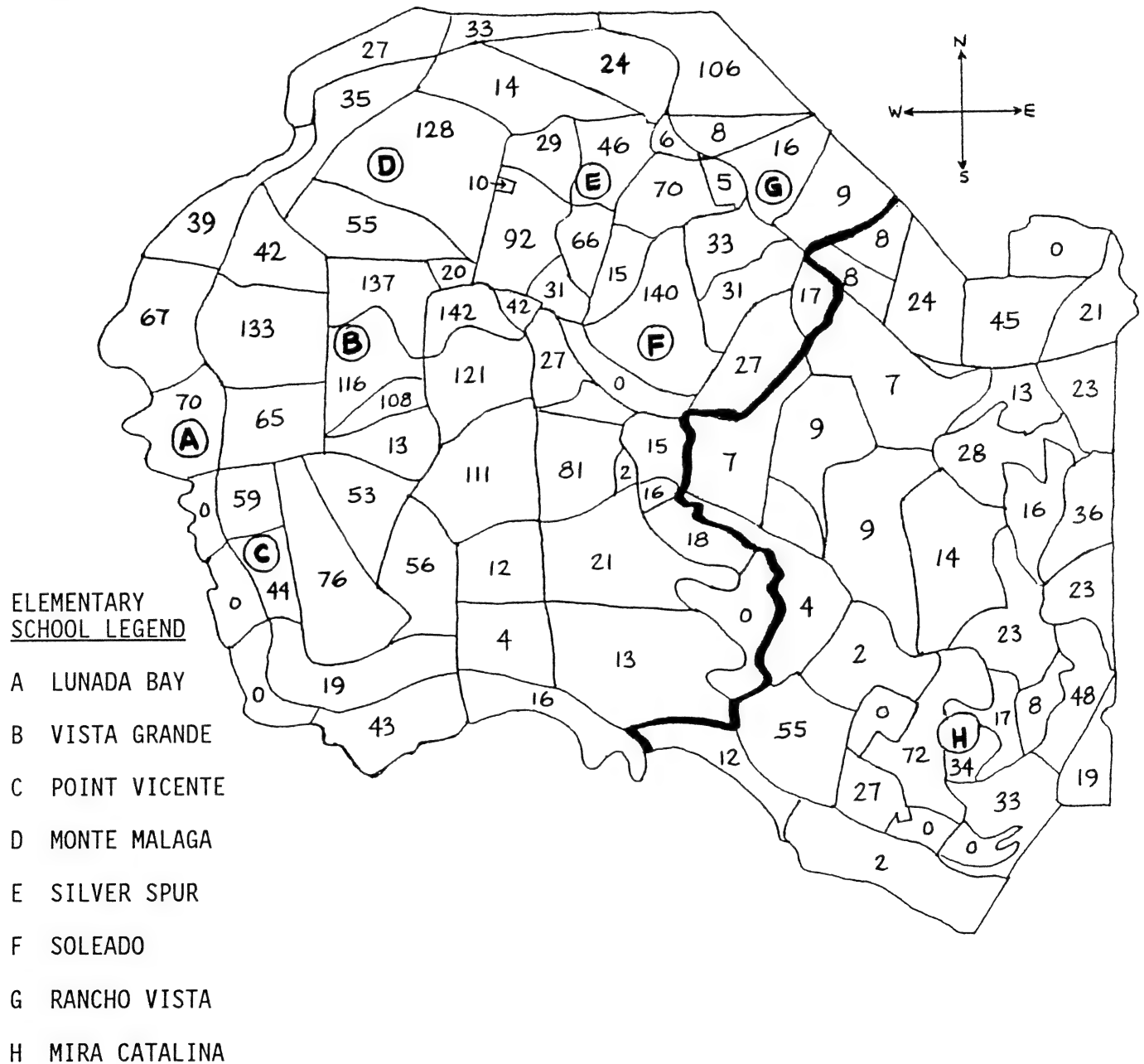
- A MIRALETE
HIGH SCHOOL (7-8)
- B MALAGA COVE
INTERMEDIATE SCHOOL (6-8)
- C RIDGECREST
INTERMEDIATE SCHOOL (6-8)

- D MIRA CATALINA
ELEMENTARY SCHOOL (6)
- E RANCHO VISTA
ELEMENTARY SCHOOL (6)

GRADES K-5

The following map displays the number of students (grades K-5) by location in the school district. (Thirty-eight additional students live outside of the district.)

The area east of the darkened line represents the proposed new school district.



APPENDIX F

**FISCAL IMPACT ON THE PALOS VERDES PENINSULA
UNIFIED SCHOOL DISTRICT OF FORMING A
NEW DISTRICT IN THE EAST PENINSULA***

<u>Description</u>	<u>Fiscal Year 1986-87 Actual</u>	<u>Amount Attributable to East Peninsula Schools</u>	<u>Palos Verdes Net of East Peninsula Schools</u>
REVENUE			
Unrestricted:			
Revenue Limit (State & Local)	\$28,092,399	\$5,028,539	\$23,063,860
Other State Sources	973,796	174,309	799,487
Local	1,627,536	135,987	1,491,549
Other	<u>112,509</u>	<u></u>	<u>112,509</u>
Total Unrestricted	<u>30,806,240</u>	<u>5,338,835</u>	<u>25,467,405</u>
Restricted:			
State	2,815,040	503,892	2,311,148
Federal	269,060	48,162	220,898
Other	<u>161,145</u>	<u>28,845</u>	<u>132,300</u>
Total Restricted**	<u>3,245,245</u>	<u>580,899</u>	<u>2,664,346</u>
Total General Fund Revenue**	<u>\$34,051,485</u>	<u>\$5,919,734</u>	<u>\$28,131,751</u>
EXPENDITURES			
Certificated Salaries	\$19,109,815	\$3,705,147	\$15,404,668
Classified Salaries	5,858,571	694,430	5,164,141
Employee Benefits	4,951,436	877,579	4,073,857
Books and Supplies	1,296,283	231,721	1,064,562
Contracted Services	3,062,022	569,190	2,492,832
Capital Outlays	378,095	67,590	310,505
Other Outlays	<u>204,360</u>	<u>40,475</u>	<u>163,885</u>
Total General Fund Expenditures	<u>\$34,860,582</u>	<u>\$6,186,132</u>	<u>\$28,674,450</u>

* Based on actual revenue and expenditures of the general fund, restricted and unrestricted for fiscal year 1986-87.

** Deferred revenue is not included.

See Key Assumptions

Key Assumptions:

1. Reductions in the revenue limit and all other revenue would be directly proportional to enrollment except for 1) reductions in rent and lease revenue, which would be proportional to real property; and 2) reductions in interest income, which would be proportional to the reduction of funds from real property sales.
2. Reductions in salaries and benefits would correspond to reductions in staffing if Mira Catalina Elementary, Dapplegray Intermediate, and Miraleste High School had not been part of the Palos Verdes Peninsula Unified School District.
3. Reductions in expenditures for books and supplies would be directly proportional to reductions in student enrollment.
4. Expenditures for utilities would be reduced by the actual amounts expended for electric power, natural gas, and water at the three schools in the east peninsula area.
5. Reductions in expenditures for personal service contracts and repairs by vendors would be proportional to reductions in enrollment.

1986-87 REVENUE AND EXPENDITURES
FOR THE EAST PENINSULA SCHOOLS
COMPARED TO THE EPEC'S 1987-88 PROPOSED BUDGET*

Description	Amount Attributable to East Peninsula Schools**	EPEC Proposed Budget***	Basis for Allocation of Palos Verdes Actual Revenue+	EPEC Budget Assumptions+
REVENUE				
(Unrestricted)				
Revenue Limit (State & Local)	\$5,028,539	\$5,079,924	17.9% of 1986-87 actual when revenue limit was \$2,709.13 (Special Education excluded)	1,812 students times \$2,803.49 (the 1987-88 revenue limit) (Special Education included)
Total Revenue Limit	5,028,539	5,079,924		
Other (State)				
Lottery	172,893	163,080	17.9% of actual (avg=\$95.31/student)	1,812 students x \$90.00/student
Mandates	1,267			
Opportunity	149			
Total Other (State)	174,309	163,080		
Local				
Rent/Lease	34,468		Rent for Miraleste Elementary	
Interest	12,062		Share of funds on deposit	
Gifts & Miscellaneous	89,457		17.9% of actual (avg=\$49.32/student)	
Total Local	135,987	161,000		Average \$88.85/student
(Restricted)				
Special Education Master Plan	219,760	325,363	17.9% of actual (avg=\$121.15/student)	\$179.56/student
Special Education ADA	83,646		17.9% of actual (avg=\$46.11/student)	Included in state and local revenue limit
Total Special Education	303,406	325,363		
School Improvement Program	78,047	80,634	17.9% of actual	\$44.50/student
Other State	122,439	112,797	17.9% of actual	\$62.25/student
Federal Aid	48,162	41,404	17.9% of actual	\$22.85/student
Other - Miscellaneous	28,845	36,240	17.9% of actual	\$20.00/student
TOTAL REVENUE (Not Including Deferred Revenue of \$65,000 and \$80,000 respectively)	\$5,919,734	\$6,000,442		

Description	Amount Attributable to East Peninsula Schools**	EPEC Proposed Budget***	Basis for Allocation of Palos Verdes Actual Revenue+		EPEC Budget Assumptions+
EXPENDITURES					
1000 Certificated Salaries					
1100 Teachers	\$3,047,366	\$2,706,180	82 positions X \$37,163++	74 positions X \$36,570	
1200 Administrative	300,546	217,300	6 positions X \$50,091	3 principals, 1 assistant principal	
1300 Supervisor	45,000	90,100	One position	17 stipends X \$5,300 each	
1400 Librarian	79,350	41,976	One position at Miraleste, one at Dapplegray	One position at Miraleste, volunteers at others	
1500 Guidance Counselor	201,685	158,293	4 at Miraleste, one at Dapplegray	3 guidance counselors & one psychologist at Miraleste	
1600 Nurse	31,200	53,189	1.3 Full-Time Equivalent	One at Miraleste, one-half at others	
1700 Certificated - District			No reductions at District Office	(see +++)	
1800 Other Certificated			No reductions at District Office	(see +++)	
1900 Other Certificated			No reductions at District Office	(see +++)	
Total Certificated	<u>3,705,147</u>	<u>3,267,038</u>			
2000 Classified Salaries					
2100 Instructional Aides	123,890	149,816	Allocated based on enrollment	\$82.68/student	
2200 Administrative			No reductions at District Office	(see +++)	
2300 Clerical	228,353	169,600	Actual salaries for 14 positions	6 at Miraleste, one each elementary at \$21,200	
2400 Maintenance/Operation	294,768	233,200	Actual salaries for 15 positions	6 at Miraleste, 2.5 each elementary at \$21,200	
2500 Food Service			Immaterial	Self-sustaining	
2900 Other Classified	<u>47,419</u>	<u>29,680</u>	Estimated salaries	Security and study hall at Miraleste	
Total Classified	<u>694,430</u>	<u>582,296</u>			
3000 Employee Benefits					
3100 - 3600	<u>877,579</u>	<u>769,867</u>	Actual percentages applied to salaries for each type of benefit (average=20% of salaries)	20% of certificated and classified salaries	
4000 Books and Supplies					
4100 - 4500	<u>231,721</u>	<u>284,484</u>	17.9% of actual (average=\$127.74/student)	\$157.00/student	
5000 Contracted Services					
5100 - 5800	<u>569,190</u>	<u>610,644</u>	Various allocation formulas based on nature of service (average=\$313.78/student)	\$337.00/student	

Description	Amount Attributable to East Peninsula Schools**	EPEC Proposed Budget***	Basis for Allocation of Palos Verdes Actual Revenue+	EPEC Budget Assumptions+
EXPENDITURES (Continued)				
6000 Capital Outlays				
6100 - 6500	<u>67,590</u>	<u>99,660</u>	\$37.26/student	\$55.00/student
7000 Other Outlays	<u>40,475</u>	<u>81,540</u>	Southern California Regional Occupational Center (SCROC) only	SCROC plus deferred maintenance costs
TOTAL EXPENDITURES (See +++)	<u>\$6,186,132</u>	<u>\$5,695,529</u>		

* This schedule has been prepared for comparison purposes only. It is not intended to be definitive of how allocations and prorations would or should be made by governing bodies if the proposed district is established.

** In 1986-87, the east peninsula schools consisted of one elementary school, one intermediate school, and one high school.

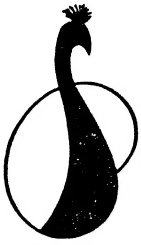
*** The EPEC proposed budget amounts are based on the EPEC's draft pro-forma budget of March 5, 1988.

+ Amounts attributable to the new district were based on an enrollment of 1,814 students, whereas the EPEC budget assumptions were based on enrollment of 1,812 students. The ratio for the distribution of amounts based on student population is calculated as follows:

$$\frac{1,814 \text{ enrollment in east peninsula schools}}{10,148 \text{ enrollment in the whole district in 1986-87}} = 17.9\%$$

++ The average salary for teachers at Palos Verdes includes hourly teacher costs, salaries for summer school teachers, substitute teachers, and extra duty stipends. The EPEC proposed budget does not include these costs.

+++ Total expenditures is an estimate of costs for operating the three schools only. Costs for operating the district office are not included. The EPEC estimated the costs for operating the district office to be \$244,000.



Palos Verdes Peninsula Unified School District

VALMONTE
ADMINISTRATION
CENTER

May 19, 1988

Mr. Thomas W. Hayes, Auditor General
State of California
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

3801 Via La Selva
Palos Verdes Estates
California 90274
(213) 378-9966

Dear Mr. Hayes:

In general the District is pleased with the results of the audit conducted by the Auditor General's office. It was done professionally by staff members who were relatively unobtrusive to our work and who investigated courteously, cautiously, and thoroughly.

Marlys J. Kinnel
President

Jeffrey N. Younggren
Vice President

Jack Bagdasar
Clerk

Sally Burrage
Member

Joseph P. Sanford
Member

Jack Price
Superintendent

We were pleased that the auditors found that:

- 1) The District expenditures were in line with those in other comparable districts;
- 2) The District spends a greater proportion of its income on certificated salaries than most comparable districts; and
- 3) The District is not administratively top heavy.

We were also pleased that the auditors found that the Board closed Miraleste based on program improvement and facilities utilization. There is a difference in the estimated savings produced by the closure between the administration's document and the auditors' examples. As we can see, the differences result from two (2) major differences in assumptions. One deals with the use of gross acres (auditors) versus usable acres (District). The second difference was in the savings resulting from closing elementary schools. Although the closure of an elementary school should not reasonably have been included in one option without the other, it should be pointed out that under Option B no elementary schools could be closed.

It was also gratifying to see that the District position on the EPEC budget was borne out by the auditors' independent investigation.

We also appreciate the recommendations of the auditor with respect to the collection of developer fees. The report recommends that the District:

- 1) Communicate its written exemption policy on developer fees to the public in writing;
- 2) Designate a committee to review, or itself review, all past and future requests for exemptions from developer fees and make consistent decisions on exemptions based on the written criteria that the school board establishes; and
- 3) Ensure that it consistently follow its policy of not accepting post-dated checks and that it deposit checks promptly.

The District will implement these suggestions promptly.

The draft report correctly observes that as of the date of its publication, the District has granted thirteen (13) exemptions from the collection of developer fees totaling \$73,000 for which there is not adequate documentation in the file. We are pleased to include copies of such documentation for ten (10) of the twelve (12) cases we were supplied accounting for all but \$8,000 of the \$73,000 in question^{*}. We will obtain and place in the files appropriate documentation for the remaining two (2) cases.

The report notes that of the ten (10) districts contacted by the auditors, only two (2) had developer fee exemption policies. Before the District adopted such a policy it surveyed San Diego Unified, Los Angeles Unified, and South Bay Union High districts, all of which had exemption policies. In addition, assistance was solicited from the State Department of Education, the Los Angeles County Office of Education, the California School Boards Association, and School Services of California.

In all, we are pleased that the audit was so favorable to the District and we appreciate the thorough work that was done by your staff to bring the audit to a successful conclusion.

Sincerely,



Marlys Kinnel, President-
Board of Education

Attachments

* For five of these exemptions, the documentation provided adequately demonstrates the propriety of the exemptions. According to the district's community relations liaison, the district intends to provide additional documentation for the remaining five.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps